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THE
INTERNAL MANAGEMENT
OF A
COUNTRY BANK:

IN A
SERIES OF LETTERS ON THE FUNCTIONS AND
DUTIES OF A BRANCH MANAGER.

BY
THOMAS BULLION.

"The every-day cares and duties, which men call drudgery, are the weights and counterpoises of the clock of time, giving its pendulum a true vibration and its hands a regular motion."—LONGFELLOW'S KAVANAGH.

LONDON:
R. GROOMBRIDGE & SONS, 5, PATERNOSTER ROW.
J. MENZIES, EDINBURGH; J. ROBERTSON, DUBLIN.
GEORGE PHILIP AND SON, LIVERPOOL.

1850.

GEORGE PHILIP AND SON, PRINTERS, LIVERPOOL.



P R E F A C E .

THE internal affairs of a bank are usually conducted in accordance with certain regulations, laid down by it for the guidance of its officers, and necessarily conceived in a style more imperative than explanatory.

In the following Letters, I have essayed a familiar exposition of the *principles* from which these regulations are deduced: and I publish them in the hope that they may assist the junior officers in banks in acquiring that scientific knowledge of their profession which, next to experience itself, best qualifies them for offices of trust and responsibility.

But there are certain subjects discussed in the work which have a more general interest, and address themselves to a wider circle of readers than, I apprehend, they are likely to command. I allude more particularly to

those principles which guide a banker in his dealings with the public ; a subject, I should suppose, of as lively interest to the commercial community as to the banker himself ; and concerning which I think it not impossible that, even in the following pages, the community in question might hear of something to its advantage.

Had the author of the well-known *Practical Treatise on Banking* followed the subject into the department particularly treated of in these Letters, it is superfluous to observe that they would never have been written, and that the subject would have been handled by an able and experienced pen. As it is, I experience some encouragement from the fact that my production has already received the stamp of his approval.*

I have only to add that a majority of the Letters have appeared, from time to time, during the last three years, in the pages of the *Bankers' Magazine*, in the order—I should rather, perhaps, say the confusion—in which the various sections of the subject

* *Vide* a *Practical Treatise on Banking*, by J. W. Gilbart, Esq., F.R.S., fifth edition, vol. 1, p. 33.

offered themselves for discussion.' I have taken advantage of this re-publication, however, to pursue a more logical arrangement of the subject, and to add to the original text a good third of fresh matter, which I trust will be found of equal quality with the old — whatever that may be.

With these remarks, I commit the book to the merciful consideration of the reader.

T. B.

LIVERPOOL, *1st January*, 1850.

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Letters on Banking, &c.

LETTERS

ON

THE INTERNAL MANAGEMENT

OF A

COUNTRY BANK.

LETTER I.

INTRODUCTORY.

WHILST the “monetary mind” is darkened by the fear of an approaching Panic, a visitation which most persons expect and marvel why it has not come ; whilst the great Railway mania has passed like a distempered dream, and its hopes lie wrecked in dreary depths of discount and Stag-nation, and those it found employment for now swell the glut of clerks, and find the uses of “The Provident” * (all speed to its success); whilst, with a strange and ominous perversity, the panic keeps aloof, and the bullion wont go down, and discounts wont go up, and all is indecision, doubt, and foreboding: in times like these,† I say, when the only thing

* The Provident Clerks’ Mutual Life Assurance Association.

† This was written at the close of 1846.

certain to bankers' clerks is the uncertainty of employment, you have been fortunate in succeeding to the management of a branch at the age of six-and-twenty.

That, under the circumstances, you should feel elated with your promotion, is natural; that this elation will rapidly subside I regard as not the less so; and that it will, ere long, be dashed by sensations of a very opposite description, is only consistent with the experience of all who have filled similar situations.

You will find that, along with augmented rank and salary, there have devolved upon you certain duties and responsibilities of the gravest kind, which you will do well to ponder seriously; for upon an accurate appreciation of your new position at the very outset will necessarily depend whether it shall prove to you an advantage or a bane.

Nor are you alone interested in the result. Your stake in the matter indeed is a small one compared with the aggregate of interests involved in your appointment, and dependent upon your conduct and abilities for injury or advancement.

To your clients, the customers of the branch, you will stand in the character of *dispenser of credit*—a function demanding for its proper exercise the nicest discrimination and the soundest judgment.

Thousands of pounds will every week be paid across your counter in discounts or advances to a variety of persons, and it will

rest mainly with you whether these advances will work evil or good—go to foster rash adventures or to promote legitimate enterprise. No inconsiderable amount, on the other hand, will annually be refused by you to applicants for advances; and here again will it rest with you, whether, amongst the applicants, there are not those who are fairly *entitled* to assistance, and the refusal of which may subject them to unmerited inconvenience or distress.

In your dealings with your clients, the abnegation of all personal bias is essential to the exercise of your duties with strict justice and impartiality. It is a grave dereliction of duty on the part of a bank manager to allow a partiality for the customer to permit him to look with relaxed stringency upon the customer's account; but it is wrong and unprincipled in a manager to gratify a personal dislike for a client through the medium of that client's account. In banking transactions there is no scope for "the feelings." Banking is not a matter of sentiment but of business merely. The "sentiment of bills," I apprehend, would be an arduous subject for the most versatile of essayists.

To your directors you will stand chiefly in the character of trustee, for the safe custody and investment of the comparatively enormous sum which they must place at your disposal—a sum, recollect, not limited to the amount of your advances and discounts outstanding and current at any given date, but measured

by the aggregate of discounts and advances which you may transact during the time you continue to act as their manager; and seeing what this aggregate may reach in the course of a prolonged service, it can only be by the exercise of an active vigilance and a wise caution that you escape a series of losses to an amount altogether incalculable.

And in fulfilling the duties you owe to your clients, on the one hand, with undeviating fairness, and to your directors on the other, with invincible rectitude, you best fulfil the few duties you owe to yourself. The reward of a good conscience, if of nothing else, will be yours in the one case—a more substantial acknowledgment will probably be your reward in the other. Beware of the notion that what you chiefly owe to yourself is an earnest seeking after salary—an idol in high worship amongst the undeserving. It may and will come as an effect of good conduct—never seek it as a cause.

And next in importance to a duty itself sometimes is *the manner* of its fulfilment. You will not invariably be the messenger of glad tidings from your directors to your clients; but an unpleasant communication need not be embittered in its effects by harshness in the mode of its delivery. You have to intimate, perhaps, to Mr. Smith, that the trifling accommodation applied for by that gentleman, and transmitted to the directors for approval, cannot be granted. The fact

very probably is, that Mr. Smith is not trustworthy for the advance, but there is no absolute necessity that you should tell him so. Without impugning his credit to his teeth, the refusal will be galling enough to a man of sanguine disposition—and of this description I should say are all who apply for impossible advances. But perhaps Mr. Smith demands a reason? If he does, there are certain well-known excuses—privileged fictions (so to speak) always at hand. It is not “convenient” to make the advance. But that is a fact, and no fiction: It can never jump with the convenience of a bank to make an advance, the re-payment of which is more than problematical. Or, “You are a stranger to the directors, Mr. Smith, and they do not know enough of your circumstances to warrant them in making the advance.” Another fact, and only an indirect way, perhaps, of intimating that they do know enough of Mr. Smith’s circumstances to warrant them in *not* making it. Or again, “It is your rule to make no advances without security.” The greatest fact of all, and I should apprehend in most cases conclusive.

This must suffice by way of introduction. In our next we shall proceed to business.

LETTER II.

OVERDRAWN ACCOUNTS.

THE PERMANENTLY OVERDRAWN ACCOUNT OBJECTION-
ABLE ON FINANCIAL GROUNDS—ITS OPERATION IN
THE CASE OF AN INDEBTED TRADER.

In a certain letter, to which I shall have occasion frequently to refer in the course of this correspondence, you desire to be informed, amongst other things, what objection, financial or otherwise, should exist to your customer, Mr. Timms, the grocer, being allowed an overdraft upon his account to the amount of one thousand pounds,—the transactions upon the account being £20,000 annually (chargeable with the full 5s. per cent. commission), and the overdraft itself being guaranteed by parties fully responsible for the amount; it being obvious, you add, that such an account returns to the bank a gross profit of TEN per cent. per annum, viz. :—

| | |
|--|-------|
| Interest on overdraft £1000 (say 5 per cent.)... | £50 |
| Commission on £20,000, at 5s. per cent. | 50 |
| | <hr/> |
| | £100 |
| | <hr/> |

I must, at starting, do you the justice to admit that you do not stand alone in your

views on this matter. On the contrary, I will admit that "highly operative accounts," that may be secured by allowing overdrafts upon them, appeal strongly to the feelings of branch managers in general. Your views, moreover, are cordially shared by that large section of the public who sometime in their lives find an overdraft a convenience or a necessary, and who appear to have come into the world, and promise to go out of it, with the idea that a banker's capacities of lending are altogether indefinite, and sincerely believe that the refusal of an advance, as a general principle, is blindly to throw business away.

The ambition to do business—to see the volume of operations upon accounts current swelling to a stupendous total, and to tax this total with a full quarter per cent. commission, and carry the result to the credit of profit and loss, and to one's own credit as well, is, I confess, a strong temptation, and therefore figures rather frequently amongst what may strictly be termed a banker's sins of commission. Nay, more, there are directors and chief managers of banks, or there at least have been, in this country, who hold, or have held, what I believe to be erroneous doctrines on this subject, and with very lamentable results, as you and I and others in general know, and their co-proprietors in particular both know and feel. I beseech your patience, therefore, whilst I endeavour to explain, as briefly as I can, what I conceive to be the nature and

operation of overdrawn accounts; and you will not be the less disposed to listen to me, perhaps, when I state, that I once thought with you upon the subject, but have had the most convincing reasons for changing my opinion.

And first, as respects the very common plea founded upon the *safety* of the overdraft. Undoubtedly one of the main considerations with a banker when he makes an advance is the certainty of its repayment. I take it for granted that no one in the possession of his ordinary senses would lend money without this certainty—without a conviction that he would be repaid his loan to the uttermost farthing. But with a banker there is a consideration beyond and above this. The safety of any particular account is one thing, the safety of his bank is quite another; and it is quite possible for a bank not to have an unsafe account on its books, and yet to be in an extremely unsafe position itself.

Now, for a bank to be in a perfectly safe financial position, it should be able at all times to meet the demands that may be made upon it without notice by its depositors, note-holders, and others. If its position is such that in case of any sudden and heavy drain upon its more active liabilities it must depend largely upon its overdrawn accounts to meet that drain, then I do not hesitate to assert that its position is a perilous one.

It is true that the bank may have granted the whole of its over-drafts on the express

understanding that they might be *recalled* at any time, and without notice. But to recall an overdrawn account, and to obtain payment of it, are not exactly synonymous operations. Betwixt the act of recall and the act of payment there always lies an uncertain interval, extending over weeks, months, or years, as the case may be—the duration of the interval being determined very much by the use the borrower has made of his overdraft.

If he has accustomed himself to make use of it only now and then—to meet an accidental and temporary excess of engagements over his immediate means to meet them—then repayment will be speedy, and very much a matter of course. If he has used it as permanent addition to his floating capital, he must await the result of reducing the more active portion of his business to a smaller compass, and consequently repayment will be a more tardy process than in the former case. But if he has *fixed* it in his trade—in buildings or machinery—in dead stock or book debts, (and which, by the way, as far as my experience extends, is the rule rather than the exception,) then the time of repayment will be altogether indefinite.

You will remind me that there are *the sureties* to fall back upon? Granted. Granted also that the sureties are safe for the amount of their liability. But this in nowise proves their ability to pay the overdraft on demand. I apprehend that no sane person puts his name

down as surety for a thousand pounds who has the remotest idea that he will ever have to pay the money. The natural consequence is, that a security no more thinks of *providing* for such a liability than he does for paying off the National Debt. It is the nature of sureties, therefore, to be uniformly unprepared to meet such liabilities.

Overdrafts of a permanent character, then, are obviously deficient in that first requisite of a banker's resources—viz., *immediate convertibility into cash in case of need*. An ordinary drain upon a bank whose business was chiefly confined to the discount of legitimate business bills, could be met by simply contracting the volume of its discounts; but you do not necessarily diminish your existing overdrafts a single pound by refusing to grant fresh ones. Or, if the drain was too sudden and heavy to be met by a mere contraction of the discounts of the bank, a portion of its bills on hand might be converted into cash. In the worst of times (October, 1847, only excepted) good bills could be re-discounted at a price: but the re-discount of your current account ledger is a process, you will confess, which would be surrounded with difficulties in the easiest of times.

And is the privilege of overdrawing a banking account of such advantage to the party possessing the privilege as is commonly believed? Rightly and sparingly used, the

privilege is doubtless a valuable one, and has carried many an honest trader through a difficulty that might otherwise have been insurmountable. But for one who so uses the privilege there are many who misuse it, and to their own certain injury in the end.

Take a case for example. Patrick Twist, draper, has enjoyed an uninterrupted overdraft for so many years, as practically to have ceased to regard it as a liability. It has, in process of time, become as much *fixed* in his trade as the £100 with which he boldly started on his own account ten years ago. A fatal ambition to out-draper all Huggleton has brought him a large business, certainly, but it has at the same time swollen his book debts to a formidable amount. Instead of being in a position to clear off his overdraft on demand, therefore, he is at his wits' end to meet his current liabilities. Not improbably, at the time you intimate the desire of your directors that his overdraft be now paid up or heavily reduced, he is on the eve of applying for its further enlargement.

Now, were Twist addicted, at such a crisis, to looking the length of his yard measure before him, he would see the impossibility of gratifying the wishes of your directors within any reasonable period. The amount of his overdraft, and much more, is sunk in book debts, the collection of which would involve a world of expense, loss, and delay. His obvious course, therefore, should be, to call

his creditors together at once, tell them plainly the position of his affairs, and throw himself upon their forbearance.

But the first impulse in the mind of Mr. Twist is, to screen his difficulties from his sureties. He accordingly puts his "travellers" off till next journey, on various pleas; and if he has any acceptances to meet, he gets them renewed if he can. He thus places himself in sufficient funds to effect such a reduction of his overdraft as may appease the demands of the bank for a time. Thus Mr. Twist accomplishes his First Act in that well-known commercial piece, *The Road to the Gazette*.

He cannot have proceeded very far before he discovers that the reduction of his overdraft has not reduced his liabilities, as a whole, a single shilling. It has simply altered their distribution. His friends, the travellers, begin to come round again with harassing punctuality; and if he had difficulty in fencing them off the previous journey, the difficulty is now enhanced fourfold,—for, whilst their demands have doubled in amount, his excuses for non-payment have lost half their force. Christmas is still distant a few months. Twist, therefore, draws upon as many of his debtors as will accept his bills [and, if sorely pressed, will even draw upon an imaginary debtor of large amount, in the person of his shop-boy.] With these bills and a sprinkling of cash, backed by promises of extended orders, payment in full next journey, and certain

stereotyped fictions touching the badness of trade, and his constantly-enlarging stock, Twist struggles to the end of Act Second.

Early in the Third, the bank is again thundering at his doors, and certain of his renewed acceptances are rapidly approaching maturity. Still faithful to his principle of dealing with his difficulties as they arise, without a thought for the morrow, sanguine as to his own resources, and believing indefinitely in "luck," Twist determines upon a vigorous move. Accordingly, in a circular chiefly remarkable for an ill-regulated use of the pronoun "which," a discerning public is invited to observe the ruinous prices at which Mr. Twist is prepared to sacrifice, without reserve, for ready money, the whole of his unparalleled assortment of spring goods, just arrived, &c., &c. The lovers of cheap bargains, of course, flock to the shop, and a sum is realised sufficient to enable Twist to tide on, but only towards accumulating difficulties for a few weeks longer.

A heavy creditor, living at a distance, exasperated at last by repeated delays, and becoming apprehensive as to the safety of his debt, issues a writ. This is by far the most formidable difficulty poor Twist has yet had to encounter. A mere "traveller" he could manage—the bank he could stave off—an acceptance he could renew—but a WRIT! that is quite another affair. It inspires him with a degree of ignorant terror that haunts his very dreams. By any means, at any

sacrifice, it must be got rid of. Money, however, he has none; but, to his inexpressible relief, he finds refuge in a *cognovit*, with a total ignorance of its nature; and so terminates the Fourth Act of his career.

The writ has barely been discharged, when the bills drawn by Twist upon his customers begin to return upon him. The bills were probably accepted on the understanding that *he* was to protect them—the acceptors agreeing to pay their accounts without reference to the bills at all. His own acceptances, too—further renewals being now denied him—are, for the first time, dishonoured. The bank, taking alarm, becomes urgent; creditors at a distance, not finding their bills taken up by return of post, take alarm also. Thus, beset on all sides, an assignment for the general behoof is wrung from him at last. Several of the creditors, however, finding how he has been dealing with his estate, decline coming in under the assignment; and so the affair terminates in bankruptcy and sixpence in the pound.

LETTER III.

OVERDRAWN ACCOUNTS—*Continued.*

FURTHER OBJECTIONS TO PERMANENT OVERDRAFTS—
TEMPORARY OVERDRAFTS EXPEDIENT IN CERTAIN
CASES—PROFITS AND INCIDENCE OF OVERDRAFTS.

The story of a draper, sent you in my last, is not a mere figment of the imagination. Of my own knowledge, the narrative is true in the main of half-a-dozen cases in one little country town of my acquaintance.

I do not mean to assert that every one is like Twist, and makes the like improvident use of a permanent advance from his banker. There are numerous instances of parties, who, starting with a fair capital of their own, have turned to profitable account the additional capital procured by them in the form of an overdraft. Nevertheless, it should be borne steadily in mind that overdrafts are recalled almost invariably in a time of monetary pressure and low prices, and consequently at a time when the trader must realize at a loss. The majority of applicants for overdrafts rarely think of this; therefore you ought to think for them, and rather encounter their present displeasure than their future maledictions; because it is nothing unusual for the

man to whom you have unhappily lent your money, and who has paid you a trumpety dividend, to turn round and charge you and your advances with his ruin. I grant that, under all the circumstances, particularly if you are smarting under the loss of a thousand or two, such an accusation is peculiarly intolerable, the more so because a banker ordinarily considers that he confers a favour by granting an overdraft, and entitles himself rather to gratitude than to abuse : but as the ingratitude of insolvent debtors does not fall strictly within the scope of my present subject, I pass on.

And how, think you, that very important class of your customers,—those who conduct their business with a capital of their own, and whose banking accounts always show a balance in their favour,—how, think you, do *they* relish an upstart being thrust into business by means of the overdraft you allow him out of *their* deposits ? It is neither a fair nor a courteous answer to reply, that it is none of their business, provided they get their interest upon the deposits, and may have the deposits themselves when they choose to call for them. I think they have a right to complain if competitors in trade are raised up against them by means of undue facilities, and their business by consequence reduced both in extent and profit. I know that it is often asked, by way of rejoinder to this, how the man who has to *pay* for his capital can undersell the man who is working with his own ? But Twist did, and

thousands do ; for Twist, with all his ignorance of many things, saw very clearly this, that his only chance against his long-established competitors was to drive "a roaring trade" on the principle of "small profits and quick returns." He argued, shrewdly enough, that twenty shillings are as good as a pound ; and, therefore, that twenty transactions, which realized a profit of a shilling each, were as good as one transaction which realized a pound.

You will tell me, perhaps, that a man—leaving Twist aside—who uses other people's money, will be more cautious how he lays it out (not knowing when he may be called upon to repay it) than if it were his own. This may be the case with some, but I suspect that in the main the contrary is the fact. A man who has worked for, and acquired his capital by laborious industry, will have a truer appreciation of its worth, and will be more cautious how he disposes of it, than the man will who borrows his capital for the purposes of speculation merely. It is too much the case, moreover, for parties to regard an advance from a joint-stock bank, or any *public* body, in a light different from that in which they would regard money borrowed from an individual. "To an individual, the loss of the money would be ruin"—so runs the argument—"but to a joint-stock bank, you know, it is only so much to each proprietor,—a mere trifle, which he will never feel." And the argument does not always stop here, particularly with your "fast"

men. Banking; they will tell you, is a trade, and interest and commission simply the premium for which the shareholders, or the directors for them, underwrite the risks which they undertake. Advances to gentry of this description, are what all prudent branch managers will regard as "doubly hazardous." I was once told by a customer, through whom we lost upwards of £1000, a man of fair intelligence and average honesty, that we needn't be so very savage with him; for if we would add together the interest and commission charged upon his account for the last seven years, we should find that we had lost by him little or nothing!

An overdraft, if granted at all, should be *temporary* only, limited in amount and duration by the occasion which it is required to meet; and there is no trade or business, however well conducted or whatever the amount of capital employed, in the course of which such occasions may not arise. The detention of a ship, for example,—the non-arrival of a mail,—the miscarriage of a letter, and other such mishaps, are clearly occasions for the interposition of the banker with a timely advance. So likewise when the farmer is augmenting his live-stock, before he has brought his crops to market: or when the manufacturer is enlarging his stocks in anticipation of the spring or winter demand: or when the retail dealer is laying in his supplies

for any one of the four seasons,—the banker is justified in aiding such operations to a moderate extent. The draper who goes to market with £750 of his own, we shall say, to lay in his winter stock, but extends his purchases to £1000, might not unreasonably draw upon his banker for the odd £250. So of the farmer ; and so also of the manufacturer, and all others, in proportion to their known means, the magnitude of their transactions, their habits of business, and the circumstances of the case. If these four points are intimately known to you, you will rarely make an imprudent advance ; if they are *not* known to you, you will rarely make a wise one.

You will tell me that men of undoubted means, high character, and extensive business would not submit to the catechising necessary to inform you on the points suggested ; and that sometimes the first intimation you have of an overdraft being required is the presentation of the cheque which creates it, and that consequently your only course is to honour the cheque or lose the account.

No doubt there are people in the world of excellent means and imperfect understanding, whose notions regarding the extent to which they may overdraw their accounts with impunity are governed by no fixed principle even in their own minds, and who would treat the dishonour of their cheque as an unpardonable affront, or an inquiry into the probable period of its repayment as an incredible im-

pertinence. It might be wise to humour such men to a moderate extent, if their known character and means are perfectly undoubted, and you *know* that the overdraft is either accidental or temporary; but if you do not know this, and you honour the cheque, you should instantly honour its drawer with a note or a call upon the subject.

If your respectful statement of the rules by which you are compelled to act is treated with scorn—if your calm but firm persistence in the propriety of your course is listened to with impatience, and the account closed in a storm of indignation—you will at least have the consolation of reflecting that you have done your duty, and that Mr. ——— is a most unreasonable and violent person.

But there is a class of customers of a different stamp, whose accounts have also a lively tendency to become overdrawn; and who will trespass upon your indulgence, not to the extent of their means, which would be easy of estimate, but to the extent of their audacity, which is incalculable. In dealing with such people you cannot too promptly act on the offensive. Do not calculate on *their* forbearance. So long as you will permit them they will draw. Refuse the first cheque, therefore, which they draw in excess; for your only chance against their style of play is instant cheque-mate. Of course they will bluster, and threaten, and bully; but these modern Pistols, these “fustian rascals,” are not deserving of

serious notice. Their wildest, and, as they believe, their most withering threat, is the immediate withdrawal of their accounts to other establishments; a calamity which you will be able to contemplate, I trust, with tolerable resignation and serenity of mind.

The case which you have supposed, however, or rather, which I have supposed for you, of parties seeking to overdraw their accounts without a previous understanding with you to that effect, is an exceptional one. The majority of business men have character and credit to lose, and will not readily peril both by passing an untimely draft that may be returned upon them with the ignominious inscription,—“no funds.”

And the majority of men in business will also understand and appreciate your objections, on principle, to steadily overdrawn accounts; or, at all events, you will find no great difficulty in explaining and vindicating your objections to such advances. But if your customers understand neither from their own knowledge of business, nor can be made to understand through the medium of yours, why you object to allowing any account whatever to be permanently overdrawn, you have always a powerful practical demonstration at command. *You can refuse the advance*, and so clinch your argument to the comprehension, I should suppose, of the meanest capacity.

And watch well the temporary advances upon open account which you may, from time

to time, see fit to sanction. Record the date of their promised repayment, and see to the punctual fulfilment of the promise. Laxity in this respect is contagious. Be careless on your part in the exaction of such engagements, and rely upon it your customers will not be slow to profit by your example. Promise, recollect, is effected by mere words;—performance by act and deed. The world is full of the one, and lamentably deficient, I regret to add, of the other. Beware, then, of allowing your clients to conclude that they may obtain advances on the strength of promises which they may never be called upon to perform; otherwise your temporary advances will require no lengthened space of time to become fixtures in more senses than one.

And now to revert to, I think, your only unanswered plea—the apparent *profit* derivable from a permanently overdrawn account. I think the example you quote is hardly a fair one, if I am to regard it as an average. If I mistake not, the usual calculation is, that the operations upon an account warrant an overdraft to the extent of one-tenth their amount, or one-half the amount you promise on behalf of your friend Mr. Timms. But I will take your estimate as the correct one, and Mr. Timms, in consideration of your lending him £1000, shall turn over upon his account £20,000 annually.

Now, if a party were to stipulate for an

occasional advance upon his account to the same amount, but only for three months in the year, I presume that you would consider him bound to turn over in his account, at the very least, £5000 in the twelve months. I believe that your stipulated figure would be something considerably higher, but take it at this. If, then, with a thousand pounds advanced to *four* parties in succession in the course of the year, you secure four different accounts, the aggregate operations upon which would be £20,000 annually, it is obvious that in this way you lay your money out to as great advantage in point of profit as if you advanced the money in permanence to Mr. Timms.

You will argue, perhaps, that all four might require each his thousand at the same time, and consequently that a sum of £4000 would be required to effect the operation. Then do not so arrange. The acceptance or rejection of an overdraft is entirely in your own hands, and ought in some measure to be governed by your convenience. If those accounts which are drawn upon most heavily during the autumn months, for example, are already numerous enough for the state of your finances, take no more engagements for that season. But if your spring or winter engagements are comparatively light, an accession to their amount (always, however, with a steady eye to your general instructions from head quarters) might be worth your consideration, with the view of giving a better

balance to your financial position, and a more equable movement to the general course of your business.

But this is fencing with a shadow. It is *not* probable—the probabilities run quite against the supposition—that in the ordinary course of things all men require advances at the same period of time. As the manufacturer sells, the trader buys; as the farmer sells, rents are discharged; as the trader sells, the manufacturer is paid, and so on,—one series of accounts being in process of reduction whilst another is in course of expansion,—the fall and the rise, in the long run, pretty nearly counterbalancing each other.

And there is another point worthy your best attention before we dismiss the subject, as distinguishing the temporary advance from the permanent loan. I will take the average duration of permanent overdrafts at the moderate period of three years; and I will contrast the £1000 thus advanced to an individual with a like amount advanced every three months to a succession of individuals. By the one process it is obvious that you assist *one* man only to the extent of £1000 for three years, whereas by the other you assist a dozen men to the extent of £1000 each within the period. In other words, by means of that amount of your capital which you can with safety invest in temporary advances upon open account, you can effect as much for the body of your customers, and the trade of your district, in a

single month as you could effect in a whole year by means of permanent overdrafts,—just as a quantity of guano deposited upon certain square yards of ground will cause a rank and unhealthy vegetation over the particular spot, whilst all around it is left in sterility ; whereas the same quantity, by judicious scattering over a wider surface, will produce tenfold, and a healthier crop to boot. And whatsoever tends to stimulate healthily the trade of Huggleton cannot fail to stimulate the profits of your branch, for a growing trade is accompanied by enlarged operations and augmented profits ; the one result giving increased activity to your accounts, the other tending to swell the aggregate of your deposits.

To sum up : the permanent overdraft is inconvertible in case of need, and therefore ineligible as a banking asset ; it is, generally speaking, an unwholesome prop to the trader who requires it ; it inflicts injury, indirectly, upon the trader whose capital renders him independent of it ; it is not more profitable than the temporary advance ; and it prevents the banker from giving that legitimate assistance to the monetary wants of his district which he otherwise might afford.

LETTER IV.

DISCOUNTS.

THE MEANS AND RESPECTABILITY OF OBLIGANTS ON
BILLS A PRIMARY CONSIDERATION—A CUSTOMER'S
ACCOUNT A CLUE TO HIS FINANCIAL MEANS AND
POSITION.

When your friends, Messrs. Potts and Co., the paper manufacturers, offer for discount their draft for £256. 13s. 4d., at —— months' date, on Booker and Co., of Birmingham, wholesale stationers, they tender you a document rather prolific of suggestion to the mind of a banker, however unpromising the subject may appear to the general reader.

Whilst you are fingering the bill, then, with a grave countenance, ostensibly bent on inquiry as to the validity of the stamp, the regularity of the indorsements, the absence of erasures, and other points essential to the legal accuracy of the bill, you will be revolving in your mind, no doubt, considerations of far graver weight and importance.

I shall take it for granted that it is *convenient* for you to discount a bill for the amount; and, consequently, that the bank measure of 1844, commonly called Peel's Act, is, for the time, inoperative. In monetary phrase then, you are "open" for discounts,—

the offer of a few good bills, would be rather acceptable to you than otherwise.

This settled, the question that will naturally arise next is—whether the bill now offered you is a *safe* one? And in determining this point, it is not always enough that the world at large, yourself included, should have a high opinion of the means and character of the drawers. Very high opinions, indeed, were entertained, up to the last moment, of certain firms in England, who have of late repaid the misplaced confidence of bankers and the public after a fashion that should be instructive,—the dividends upon their estates very generally bearing an inverse ratio to the degree of confidence placed in them.

Your opinion of parties, therefore, should be subject to frequent revision; because, for one reason, incidental reverses are constantly arising, which although too slight to affect our commerce as a whole, may nevertheless bring disaster and ruin to particular branches of industry. You are not justified, therefore, in awaiting the advent of a general panic, before (mentally at least) you commence a review of your Character Book: otherwise you may find a few of your friends in the *Gazette*, before you have passed your pen through records touching their wealth and responsibility of the wildest description.

Now one of the best practical guides to the progress a party is making in the world, is his banking account. To the uninitiated,

the account, as it appears in your ledger, is an aggregation of figures, which, if it gives rise to an idea at all, is painfully suggestive of the processes of multiplication and addition. All the sense or English they discover in it is an endless repetition of the terms *By* and *To* cash, bills, or discount, as the case may be. The columns headed, "Balance," "Days," "Interest," with their dense legions of figures, are mysteries to the mass, which they would rather take for granted than seek to fathom. But to the eye of the Banker, this same account, habitually and carefully perused, exhibits a man's financial history.

As an illustration of this, refer to the account of Philip Barnes, in your books for the years 1834-9.

Philip, I have heard you state, started in business in 1834, with a capital of £5000 ; and, for the first year or two, drove a cautious trade, limiting himself, as your books will show, pretty much to his own means. But in the third year, Philip, becoming ambitious, began to "extend;" became still more extended in the fourth ; and in the fifth year ('39), reached such a degree of inflation that explosion became inevitable.

The considerable balance which stood at his credit during the whole of the first two years, becomes diminished, you will see, in the third, disappears totally in the course of the fourth, and in the fifth is replaced by a balance against him. Refer now to his bill

account for the same period, and you will find a progressive and startling increase in the amount of his bills under discount. Look, finally, at the debit side of his account for the total of his *acceptances* retired, (a tolerably correct index of the credit he is obtaining from the public,) and you will find that *they* also have shared in the general tendency of Philip's affairs towards expansion.

You find, in fact, that in the summer of 1839, when the Directors first took alarm, he had got to that point at which they had to choose betwixt "carrying him through," or letting him drop;—either they must continue to discount his bills, to enable him to meet his acceptances, or his acceptances must go to dishonor, and he to the *Gazette*. They chose the former, and, as far as their information went, the wiser alternative of the two; but, as matters ultimately turned out, an unfortunate one.

Now the fault here lay, not so much with the Directors, as with W——, the Manager at Huggleton for the time being. It was his duty to have foreseen the dangers into which Barnes was hurrying, and to have acted accordingly; and if W—— had watched the account with ordinary vigilance or judgment, his suspicions would have been aroused long before Barnes got into that involved condition, from which extrication became impossible.

The enormously increased *activity* of the account, an increase in the proportion of five

to one, ought first to have suggested to your predecessor the propriety of looking to the state of Barnes's *liabilities*; and finding them augmented in an equal ratio, he ought to have become doubly cautious, at least as to their character and safety. The bills drawn by Barnes upon Wiggles and Co., for example, ought at once to have challenged attention. True, Wiggles and Co. were in a trade which it was the business of Barnes to supply; and you will see that his bills upon that firm, *at first*, averaged such an amount as might legitimately arise in the course of business, viz:—from £300 to £500: whereas towards the end of the account, these bills have risen to the monstrous sum of £3000. But even if the sum itself had failed to raise a doubt as to the legitimacy of these bills, the singular regularity with which, for a lengthened period, one of them is discounted a few days before another of similar amount is becoming due, ought to have opened W——'s eyes to the fact, which was staring him in the face—that the paper upon Wiggles and Co. was being kept afloat *by a series of renewals*. To render the case, as far as your predecessor is concerned, altogether inexcusable, there will be found, amongst the bills retired by Barnes through his account, a series of his *acceptances* to Wiggles and Co.—clearly indicating the existence of *cross paper* betwixt the parties. That is to say, whilst Barnes at Huggleton was bolstering up his credit by drafts upon Wiggles

and Co. they, in their turn, were imposing upon *their* bankers by drafts upon Mr. Philip Barnes. Now, it appears to me that it required no extraordinary degree of sagacity to have read from these circumstances, exhibited on the very face of Barnes's account, the actual fact, that Barnes and the Wiggleses were engaged in some speculation altogether extraneous to their legitimate business,—as the result showed rather forcibly in the end to those interested in the respective estates.

But apart from these very glaring facts, there were others equally indicative, to a shrewd observer, of the irregular and dangerous course into which Barnes had plunged. Refer to the account again. On January 5, 1839, you will find a debit of extraordinary magnitude :—"To A B, £1500." Now, seeing that the other debits in the account average about £150 each, the debit in question might have suggested, and would fairly have justified the inference, that it did not arise, at all events, out of the *regular* course of Mr. Barnes's business : and the truth was that it did not. It was found to represent an investment by Barnes in a certain mining company, which he and his co-adventurers fondly believed would prove a second Wheal ———, and which ended, as nine-tenths of such schemes do, in the impoverishment or ruin of all concerned.

It might also have struck your predecessor, looking to Mr. Barnes's account, that his bills latterly were paid in either the very day they

were drawn, or as soon as they could by possibility reach his hands accepted—an infallible sign of restricted means on the part of the drawer, which you will do well to note. Now, in the earlier stages of the account, the bills, you will see, were paid in at all dates,—Barnes, from his then easy and unembarrassed position, being enabled to keep them by him, sometimes for a month or two, before he passed them to his account, or had occasion to discount them.

It is likewise observable, throughout the latter part of the account, that many of Barnes's drafts upon his customers were dishonored. The entry, "To ——'s acceptance and *charges*," recurs with a frequency sufficient to have warranted the suspicion, that in extending his business, Mr. Barnes had exercised, to say the least, an unfortunate selection of customers. An acceptance will be dishonored sometimes through sheer accident: but no conceivable amount of blundering will explain satisfactorily the number of dishonored bills passed to the account, during the first five months of 1839. The rule with Mr. Barnes's customers would appear to have been to dishonor their bills—the exception to meet them.

Finally, I would draw attention to the fact that the *rates of discount* levied latterly upon Barnes's bills were exorbitant, as compared with the prevailing rates of the day. I infer from that, that upon this point he had become indifferent,—a deadly symptom of incipient

insolvency. When the customer becomes regardless of the *interest* on his account, let the banker look well to the *principal*. No man doing a business which renders him largely dependent upon procuring discounts, can well become indifferent to the rates of discount, until he has reached that point when the question with him is not one of discount and commission, but of mercantile existence. When a man asks you, therefore, in ordinary times, to discount certain bills for him, and to "charge what you like," be sure he is tempting you, by a higher premium than ordinary, to a more than ordinary risk. I believe I entertain as hearty a dislike to the whole tribe of "screws" as I have heard you frequently and vigorously express; but better endure a half-hour's huxtering over the discount on a good bill, than a whole year's remorse over the lost principal of a bad one.

LETTER V.

DISCOUNTS—*Continued.*

THE HABITS OF A TRADER TO BE CONSIDERED—BUT AN INSPECTION OF HIS BOOKS THE ONLY SURE INDEX TO HIS ACTUAL POSITION.

In my former letter on this subject, I endeavoured to show, that a customer's account, frequently and carefully studied, is one of the best practical guides to the progress he is making in his business. I chose to illustrate this position by an examination of the account of Mr. Philip Barnes, because it abounded in nearly every species of banking transaction symptomatic of a trader in distress, and therefore, supplied me with data wherewith to lay down upon your banking chart, so to speak, the rocks and shoals, which you will do well, at all times, to avoid, in steering your branch towards next dividend.

I could select another account, the exact converse of that of Mr. Philip Barnes, and show, at equal length, how a customer's account proceeds when he is doing well; but this is less requisite. A branch manager pays his official regards necessarily to the accounts of the more speculative, and less wealthy of his customers. He feels no anxieties, and

need encourage none, for the business prospects of parties who owe him nothing, or by whom it is an impossibility that he can sustain loss. Let it suffice, then, to state generally, that the account of a man who is really prospering in the world exhibits none of those symptoms of rapidly accumulating difficulties which are obvious to the most cursory observer in the account of Mr. Philip Barnes.

Next in importance to a study of his account, the habits and character of a client are deserving of your attentive consideration. If a man's style of living, for example, becomes extravagant, and he gives himself over to excess, you cannot too promptly apply the curb, however regular the transactions upon his account may seem, because years may elapse before mere irregularity of living will make any impression upon his banking account, whilst irregularity in business will exhibit itself immediately; and for this reason,—that whereas improvident habits of living involve a continuous waste in small sums, spreading over tolerably long periods, improvidence in business may involve in one swoop the loss, perhaps, of thousands.

I hold, then, that you are not warranted in all cases in feeling satisfied of a man's perfect responsibility, *until* his banking account exhibits indubitable evidence to the contrary. When a man in business notoriously gives himself over to "sporting" propensities, for

example, and becomes more intimate with the prices at Tattersall's than those in Mincing Lane—more familiar with the course at Epsom than the course of the Exchanges; and more prone to take the odds on the Derby, than be even with his banker,—you are bound to watch his account with more than ordinary vigilance. Not that I would put such pursuits down; I merely stipulate for their being followed in season and moderation, and not to the neglect and detriment of one's business.

Unquestionably, however, the most unerring guide to a trader's actual position would be found in *his books*, were they at all times open to the inspection of his banker, which, with all deference to the prevailing prejudices to the contrary, I think they ought to be. A man lays bare his constitutional ailments with candour to his physician, because in the absence of a correct knowledge of his case the physician might apply improper remedies: for the same reason, a man should be candid with his banker, because if he will conceal from you the real state of his affairs, it is just possible that you may ply him with stimulants, when severe purging would suit him better, or bleed him to death, when a little strengthening, by way of assistance, would save his existence.

What should there be offensive or unreasonable in your stating to a person who comes to borrow money from you, at the miserable

premium which banking profits afford for banking risks—that before you take his account, and discount his bills, and lend him money, you require to know his trading position, by a glance at his books? You may with a clear conscience assure him, that if his position is satisfactory, matters would go on much more comfortably for him and for you, than if you are left to guess at his position, and to have no data wherewith to rebut any rumour to his prejudice that may reach your ears at a future time.

I am perfectly aware that this sort of confidence betwixt the banker and his client is the exception, and not the rule; and that, too commonly, the first acquaintance made by the banker with his customer's books, is in the Court of Bankruptcy, or at the first meeting of creditors. I am also aware how difficult it will be to render the custom general, until there is something like unanimity amongst the banks respecting it. It will hardly answer for the manager of the "Union" to become suddenly solicitous as to the affairs of his customers, whilst the manager of the "Alliance" continues all confident and indifferent upon the subject—otherwise, there soon would be a very general transfer of accounts from one bank to the other.

But this much, I think, *is* practicable in some of our smaller towns, where the banks are few in number, and a friendly and liberal intercourse exists amongst them. An under-

standing might be come to, that from and after a certain date, every bank should, as a rule, require an exhibition of the books of any party proposing to open a new account with it, should the account be of a description to require advances, by way of discounts or otherwise. This would give the practice a commencement, and once commenced, it would spread.

I do not doubt that such a proceeding as this would give rise to a loud and general outcry on the part of those who had the gravest reasons for keeping the condition of their affairs literally a sealed book. But the prudent substantial man of business, I firmly believe, would hail the opportunity of laying the position of his affairs confidentially before his banker—conscious that by so doing, he would assure to himself against times of difficulty, distress, and panic, a larger measure of confidence and liberality than by any other course he could adopt.

If I am asked on what grounds I claim exclusively for the banks a privilege, the exercise of which would save them from losses to an incalculable extent, I would answer, that in the first place, the profits of bankers are greatly less than those of other traders. Let a banker turn over his entire capital once every month, at five per cent. per annum, and his profits at the end of the year are only £50 at last on every £1000, *plus* his commissions, which you may set down at £30 more, in all

£80. But in the case of a trader turning over £1000, once every month at a profit of five per cent., (a low rate, it will be admitted, for an average,) his profits upon the £1000 at the end of the year, are £600.

But, in the second place, were it customary for banks to insist upon being thoroughly acquainted with the actual trading position of a party, not by mere hearsay, but by actual inspection of his books, before opening an account with him, protection would thereby be insured to his creditors at large. There is no taunt more common amongst angry creditors, as you may happen, perhaps, to know by experience, than that but for *your* reckless advances to so-and-so (the insolvent), by means of which you bolstered up his credit, and made him reckless too, they would never have trusted him to the extent they did. And it is hardly to be conceived, that certain advances, which of late years have come to light, and are the scandal of our banking system, would have been countenanced, had the banks who made them had an accurate knowledge of the trading position of those to whom they were made.

It may be said, perhaps, that the constitution of Joint Stock Banks offers a serious impediment to that free interchange of confidence betwixt bankers and their customers, which would be so greatly to the advantage of both: that the directors of a bank being for the most part engaged in business themselves, the customers of the bank have an

insuperable dislike to making a disclosure of their transactions to parties who may be in the same business as themselves, and who might use the knowledge so obtained to their own advantage. But there is no necessity that the disclosure should be made to "the board." It need go no further than the manager; because his report could be made in those general terms, which would enable the board to come to a sound and proper decision upon the subject, without his disclosing a single fact that the customer would object to having repeated.

Whether the suggestion here thrown out shall take root, I know not; but were this exchange of confidence betwixt bankers and their clients universal, it is beyond doubt, that many rash and ruinous speculations would be nipped in the bud; numberless creditors saved from loss and their debtors from the *Gazette*; many deserving men spared the indiscriminate rigours now unavoidable in times of panic; and many banks saved from irretrievable disaster.

LETTER VI.

DISCOUNTS—*Continued.*

THE CURRENCY OF BILLS—BILLS AT LONG DATES
OBJECTIONABLE ON FINANCIAL GROUNDS—RECA-
PITULATION.

Thus far we have considered the means at the disposal of a branch manager, of ascertaining the position and circumstances of his immediate customers only, viz., the last indorsers of, or the parties from whom he receives, the bills discounted at his branch. As regards the responsibility of *acceptors*, or others living at a distance, you have not, of course, the same means of judging for yourself. You must, in a great measure, rely upon the judgment of others—in most cases, upon the report of the party's banker. Now, I do not say it offensively, but a banker's "opinion in confidence" is not always to be taken as a sure guide to the actual means and position of his customer. Before Mr. Twist, for example, went the way of improvident drapers, what would your opinion in confidence have been of his "standing and responsibility, in the way of business, for £200?" Why, undoubtedly, that he might safely be trusted for the amount named. And your opinion would have been a conscientious

one : you trusted him yourself, unhappily, for a great deal more. But *this* circumstance you could not properly have divulged, even in confidence. If you had, it would have tended greatly to qualify your favourable report of Mr. Twist in the minds of inquirers generally.

Instead, therefore, of ascertaining the trustworthiness of a party living at a distance for a given sum merely, it would be well, at the same time, to procure specific information as to his *character*. Even in these times, there are men a banker may safely trust "to any amount they will accept for," as the phrase is, simply because there is a law in the nature of such men which prevents them from entering into any engagement which they cannot righteously fulfil. To men of this stamp, character is capital, and justly so ; for the sterling qualities of some men offer a safer guarantee to the banker against loss, than the sterling pounds of others.

Here I quit for the present that large section of our subject which has had reference more particularly to the *safety* of a bill, and shall proceed to discuss a point not without its weight at all times, but of very grave consequence in certain states of the money-market. I allude to the *currency* of bills. Now, whatever the state of the money-market may be, a banker will prefer a short-dated bill to one of longer currency—and for obvious reasons.

In the first place, the risk is less. In the ordinary course of things, more firms will give way in six months than in three. I say it with respect; but there is always a better chance of the first house in England standing for three months than for six. In the next place, the banker could, for every bill at six months' date, discount two at three months' date within a given period; and so make his resources doubly available to his customers. If you have a certain sum that you can prudently lay out in discounts, and you select for this purpose bills not exceeding three months' currency, it is obvious that, at the expiration of the three months, you have the same amount to invest again; whereas, if you were to lock it up in the discount of six months' bills, double the space of time would elapse before you were in a position to repeat the operation. The result for the year would be, supposing your capital available for discounts to be £50,000, and that you invested it in the shorter-dated bills, that you would turn this capital over four times within the year; whereas, by selecting the longer-dated securities, you would turn it over twice only. In the one case, your discounts to parties would amount to £200,000 per annum; in the other, to only half that sum.

But, as I have said before, there are states of the money-market which render the currency of a bill of very grave importance. In the face of a growing tightness of money, for

example, no banker can prudently lock up any portion of his funds in the discount of bills having six months to run. As money becomes scarce, the rate of interest rises, and the value of all securities and property falls. An inducement is thus afforded to parties having moneys lying in the hands of bankers to seek investments for their funds: and thus arises a drain upon the deposits in banks, of more or less severity, according to circumstances.

Now, speaking generally, a drain upon your deposits must be met by a contraction in your discounts. To continue to lend as much as usual, whilst your deposits are rapidly leaving you, would be to pursue a course which would find you some morning with a well-filled bill-case, perhaps, but an empty exchequer.

Let us suppose, then, that you have £50,000 of bills under discount when you perceive the commencement of a drain upon your deposits, and have reason to suppose that the drain will be of some continuance. Let us also suppose that you find your deposits leaving you at the rate of £5000 per month. Now, if your bills are all at six months' date, about £8000 a month only will reach maturity. To meet the supposed drain, therefore, you would require at once to restrict the amount of bills usually discounted by you from £8000 to £3000 per month—a process sufficient to break half the firms in Huggleton, I should suppose. But if your bills were of

shorter currency—say three months' date—then £16,000 of your total discounts would mature monthly; in which case, you could meet the drain upon your deposits, and would still be able to continue discounting for a time at the rate of £11,000 per month, or to nearly four times the extent you could prudently go were your dealings confined to long-dated bills.

Of course I do not presume that any banker's bill-case is filled exclusively either with three or six months' paper. There will always be found in such repositories a mixture of both, but varying greatly in the proportions held of each description. What I wish more particularly to insist upon here, is the inferiority of the longer-dated bills in a financial point of view; and what is true in this respect of a bill-case full of six months' bills, would of course be true, to a certain extent, of a bill-case only partially filled with such instruments.

Nor am I to be understood as laying it down as a rule absolute that every diminution in your deposits must instantly be met by a corresponding diminution in your discounts; for, frequently, your deposits will be diminished one week, and increased the next; or whilst the deposits at your branch are falling off, those at another branch may be increasing—and conversely. Speaking generally, however, a permanent diminution of your deposits must be met immediately or ultimately by a corresponding diminution in your discounts; but

this is purely a head-office question, which we may have occasion to discuss at more length hereafter.

I think I have now glanced at the main points for your consideration, when such a bill is offered you for discount as that with which, by way of illustration, we opened the present subject. Let me recapitulate very briefly.

It is possible, then, that at the date the bill is offered, the amount of bills already under discount to Potts and Co. may be quite up to the mark authorised by your Directors as a limit. Or it may happen, supposing you have no fixed limit to their discounts beyond the merits of each bill, that their drafts already afloat upon Booker and Co. are of an amount beyond which you may be unwilling to go. Or, again, although less likely, it may be that you find a bill for the same amount upon the same parties just about due, and so, not unnaturally, infer that the bill now offered you is a *renewal*. Or, finally—and, I trust, least probably of all—your eye may have detected amongst the bills retired by Messrs. Potts and Co. a stray *acceptance* of theirs to their friends Messrs. Booker and Co., which would indicate the existence of cross-paper betwixt the firms, and rouse your liveliest suspicions as to the solvency of both. Any one of these several objections would, of course, be fatal to the bill being discounted, at least without the

most clear and satisfactory explanation, and fresh instructions from your Directors.

"But how," you exclaim, "is all this prolonged and complicated effort of memory, perception, comparison, and logic, to be got through in the few seconds permitted me to say whether I will take the bill or refuse it?" Simply, I answer, by making the effort *before-hand*. If at the moment the bill is presented, you have allowed your information respecting the house of Potts and Co., their connexions, character, and account, to run into arrear, that is your fault, not theirs. They are entitled to, and you ought to be able to give them, an answer there and then, without hesitation or doubt, whether their bill will be passed to their account, or not. You do not hesitate, at a glance, to pronounce judgment upon a picture, a poem, or an edifice, as a work of art? Now, a tithe of the mental labour which enables you to do this without conscious effort, will enable you to pronounce, with propriety and decision, the fate of any bill whatever. The faculty of distinguishing a good bill from an indifferent one becomes developed by cultivation, to a degree bordering on instinct.

LETTER VII.

DISCOUNTS—*Continued.*

OF THE COUNTRY BILL, OR LOAN NOTE, AS DISTINGUISHED FROM THE COMMERCIAL BILL OF EXCHANGE
—RENEWALS—OVERDUE BILLS.

The bill of Potts and Co. on their customers Booker and Co., of Birmingham, which has formed the text of my last three letters, would be ranked at your head office as “marketable” paper. In case of need, such a bill could be *re-discounted* in any ordinary condition of the money market. It represents value, and arises out of a *bonâ fide* business transaction. It is drawn by the manufacturer upon the vendor of a certain commodity. At the expiration of a stated period, the acceptors undertake to pay the drawers of the bill a certain sum “for value received,” and the presumption is, that the sale of this value received will place the acceptors in funds to meet the bill when it becomes due.

But you will barely have disposed of this transaction, perhaps, when your faculties are summoned to the consideration of a bill of quite a different stamp; but of a class of considerable amount and prevalence in country banking—particularly in the more agricultural districts.

John Bowdler, then, has called to borrow a hundred pounds for a few months ; he is not particular to a month—John never was—and he proposes to draw for the amount upon his friend and neighbour, David Starkey, who accompanies him. Not that neighbour Starkey owes the money—that is not pretended—but Starkey, generously, has undertaken to “go bail” for the amount, without the slightest consideration,—and would not hesitate so to do were it for ten times the amount. The truth is, perhaps, that Mr. Bowdler has seen a tempting lot of two-year-olds in the fair, and has been seized with the desire to better their condition, and his own at the same time, but is short of a hundred pounds to complete the purchase.

You know Mr. Bowdler to be a substantial man. He has many hundreds “out at interest :” he has a well-stocked farm, and lives at a low rent, and a moderate expense. Throw out of count something like an imperial gallon of ale per diem, and John is even an abstemious man. Starkey, too, is a man of excellent means, and one infirmity—a fatal tendency to accommodate his neighbours with his name, which has made serious inroads upon his freehold, but none upon his good nature. In short, the two men are undoubted for ten times the amount of the proposed bill.

But “bill” it is not in the strict acceptation of the term. A genuine commercial bill must represent commercial value given and

received; but Mr. Bowdler draws simply upon Mr. Starkey's good nature for the amount; and means in due time to pay the bill himself; the value received, so far as Mr. Starkey is concerned, being purely fictitious.

It is true that the instrument has the appearance of a bill. It is formally dated from Mr. Bowdler's place of residence, drawn at three months' date, and humorously accepted by David Starkey, payable at his banker's in London,—David, however, being as innocent of “keeping a banker” in London as the banker thus honoured is of the faintest knowledge of Mr. David Starkey. I admit, then, that it has the appearance of a bill of exchange—just as a bad shilling has a spurious resemblance to a good one. But do not hope to palm off such a document in the money market as a bill representing an actual business transaction, be it ever so dexterously “got up.” Let it be drawn, if you will, for an amount much less than the stamp will cover (a rare case with this class of bills). Instead of an even sum in pounds, let it be drawn for a sum in pounds, shillings, and pence (a case equally rare),—let even the value received be an express one, (flour, bullocks, or malt, for example)—in a word, draw it as you will, it is still Bowdler on Starkey—“Pig upon Bacon”—to the comprehension of the meanest capacity in the bill-market. If you doubt this, and ever have occasion to send a batch of bills to your broker for

discount, just try the experiment of inserting here and there, in the remittance, (quite promiscuously, of course,) a few choice bills of the Bowdler species ; and they will be picked out with a certainty and cunning amounting to intuition, and either sent you back direct, or civilly "set aside to wait your further instructions." There is as little hope of their escaping the detection of a practised eye, as there is of one of her Majesty's light sovereigns passing muster at her Majesty's receipt of customs.

Not that the class of bills now under review is *never* re-discounted. In easy times, when money is abundant, and country banks and London bill-brokers are at their wits' end how to find employment for their funds, such bills will find discounters at *a price*, provided the endorsement of your bank is in tolerable credit. But it is neither respectable to give the price, nor prudent to rely upon such a chance ; because the first blast of discredit that crosses the money market will teach you that the day of kite-flying for the moment has gone by. If up to this time you have been going before the wind, so to speak, with all sails set, in the shape of "safe country paper" under re-discount, and are suddenly taken a-back by one of those squalls not unfrequent in these high monetary latitudes of ours, one of two things inevitably follows—either you founder and go down at once, or you cut your rigging and let everything go

by the board, and so swamp any chance of profit or dividends to your owners, for *that* voyage at all events. If you would avoid either extremity, you will let your funds out with a cautious and sparing hand to the Bowdlers and Starkeys of your district.

But, independently of the "unmarketable" character of the bills in question, they are obnoxious to another objection. If there is one thing more than another essential to the bill of exchange as a banking security, it is the certainty of its being paid the day it falls due; but it is precisely upon this point that Mr. Bowdler is incorrigible. When he puts his name to a bill, he determines its currency by what he calls a rough guess. If you can't let him have the money for four months, he thinks he can "manage it" in three,—a month either way being, in John's eye, of no consequence to any living being. His promise to meet his bill he gives as loosely as he would a promise to visit a relative in the course of the summer. The necessity which a merchant feels to meet his acceptances to the day, or hopelessly blast his credit, is an unknown sensation to Mr. Bowdler. The processes of presentment, dishonour, and noting for non-payment, are mysteries to his mind as profound as the order of procedure in Chancery. He cannot comprehend why there should be so much ado about nothing, and will ask you, with something like indignation, if you fancy he means to dispute the bill, that you make

such a noise about it? and, further, if you supposed that he was likely to make a purposed journey to Huggleton to pay the bill on a particular Monday, when he was coming to town the Friday week following, whether or not? Not that it will always be so with Mr. Bowdler. On the contrary, it is just as likely that he pays the bill a week or so *before* it becomes due, as that he pays it a fortnight afterwards, and meanwhile lights his pipe with your notice of dishonor. But the serious fact remains, that in looking forward through a file of such bills becoming due, you have no certainty how or when they will be met. Some, you guess from experience, will be met before, some at, some long after date, others not at all; but what particular bills will be so met, and to what amount, you know as much as you know of the yield of next harvest.

Not a few, perhaps, of this class of bills you may be called upon to take *renewals* for. Parties who have undertaken to meet their bills faithfully at the end of three months, now find, or pretend to find, that they have miscalculated, or been disappointed, or have had some unexpected demand to meet, or haven't effected sales, or—something else. You have to choose, therefore, between allowing the bill to run upon your dishonored list, or taking a renewal of it.

If you are satisfied that the man's inability to meet his bill arises from circumstances

unforeseen and unprovided for, your better course, perhaps, will be to accede to a renewal of the bill for a short period—provided, of course, that you know, or are convinced, that no change for the worse has occurred meanwhile in the circumstances of the respective obligants to the bill; but if there is the slightest reason to doubt this, you will not be justified in agreeing to a renewal, unless either fresh security is given, or the renewal is drawn for a portion only of the original bill, the difference being met in cash. But in all possible cases, let the first renewal be the last. The occasion must be an unusual one that would justify your taking a second or third renewal of the same bill. Miscalculation, delay, disappointment, are reasonable excuses enough for once; but they are not to be listened to a second time. A man may innocently enough, perhaps, mistake your purse for his own once, but the mistake will not bear repetition. So a man, once for a time, may “due” his acceptance in May instead of April, but that he should immediately repeat the blunder, is not to be tolerated.

You will find it a sound principle, also, to decline a fresh transaction with any party who has required a renewal of a former one. You have no reason to suppose that he will be more punctual this time than he was on the previous occasion; on the contrary, the very fact of your entertaining a fresh transaction with him, would justify him in the conclusion that your

anger and threats on the occasion of his former irregularities, were mere talk, made to order, and all very fine, perhaps, for—the marines. If, presuming upon this, he should lead you a dance through half-a-dozen delusive renewals; and into a desperately bad debt at last, call him a knave if you will, but reconcile the transaction with your duties—if you can.

If the conditions upon which alone you are justified in allowing a bill to be renewed, in whole or in part, are not fulfilled, or are impracticable, and the bill is allowed to go to *dishonor*, your steps for its recovery cannot be too prompt or vigorous. If your notice of dishonor does not bring the cash within a reasonable number of days, I would favour the parties with three days' further grace in a special and peremptory epistle, containing a brief but unmistakeable expression of your sentiments and intentions: this failing, let your solicitors make application for payment forthwith; failing all three, a writ is your only resource.

I am prepared to hear you exclaim against this as "sharp practice." My answer is, that the case demands it. By dishonoring the bill, the parties to it have, to all intents and purposes, suspended payment, and judgment cannot overtake their personalities, if they have any, too rapidly. Pursue a milder and more hesitating course, and a less scrupulous and more vigilant creditor will step in before

you ; or the parties themselves, perhaps, will abuse your indulgence by making away with what little property they may have.

Even if the parties were incapable of this, if their affairs are in a bad way, the sooner they are wound up the better. In a word, delays are dangerous in the matter of *overdue bills* under any circumstances, and you cannot too vigorously purge your branch of them—amicably if you will, but by compulsion if necessary. So long as they continue on your list, they are a loss and a discredit to your branch—an eye-sore to your Directors and Manager; a pest to yourself; and the plague of your accountant's life, who has probably returned them as outstanding until they have become stereotyped on his memory, and he can run you them off by rote,—numbers, dates, names, sums, payments and all!

LETTER VIII.

DISCOUNTS—*Concluded.*

OF THE VARIOUS DESCRIPTIONS OF ACCOMMODATION
BILLS—AND THE BILL SYSTEM EXPOSED BY THE
COMMERCIAL FAILURES OF 1847.

The mass of banking transactions in the country districts, then, arises out of two great classes of bills—the one consisting of bills of a business character, and based upon and representing actual business transactions, such as the sale of timber, iron, or other produce or commodities; the other class consisting of bills representing no real transaction betwixt the parties to the bills, beyond the lending of his name by A. to B., or conversely. The one bill is drawn for value actually given and received as betwixt the parties to it; the other for a value neither given nor received, but fictitious only. To the one class we assign the name of *bonâ fide* “commercial” bills; to the other, the term “kites” or “accommodation bills” is usually assigned—but not, I think, with very exact discrimination; or, if so, the degrees of quality amongst accommodation bills must be admitted to be extreme.

The draft of Bowdler upon Starkey, for

example, is not to be placed upon an equality of demerit with the bill of Mr. Barnes upon his friends Wiggles and Co. In the case of Mr. Bowdler you knew the transaction perfectly, and there was no attempt at concealment; or, if there had, it would not have succeeded. But, in the case of Mr. Barnes, there was concealment, and something that would be deemed fraud under any less mild dispensation than the present bankrupt laws of England. Barnes knowingly drew and foisted upon your too easy predecessor, what purported to be *bond fide* bills of exchange, whilst he was lending his name, as acceptor, to the very parties upon whom he drew, and for transactions equally imaginary, and enabling them to plunder their bankers as well.

This was "kite-flying" if you will, and of the worst description: and, as a country, we have had rather too much of it of late years. The October panic of 1847, laid bare a bill system of a nature and magnitude sufficient to strike bankers dumb. Compared with the scale on which the leviathan houses of that period drew upon each other and were drawn upon, Barnes's offence dwindles to petty larceny. You would have seen, for example, in the recent bankruptcy reports, that one house starts in January, 1846, with a capital of £13,000, pays off old debts to upwards of £50,000, and, in less than two years, sinks under liabilities to the amount of *a quarter of a million sterling*! The marvel is, not that

the house should have come down so soon, but that it should have stood so long and grown so great.

Now, if the position of the affairs of this house had been known, no matter how roughly, to its bankers, is it credible that the liabilities of the firm could ever have reached an overgrowth so monstrous? But, as it was, their paper passed as "first class" long after their capital must have dwindled to a mere speck in the aggregate of their engagements.

The credit obtained by this and other houses, was not that gradual, sure, and legitimate extension of credit, which is based upon a thorough knowledge of the parties themselves, their mercantile abilities, and resources. It was of a character more æriform than solid. Its rapid expansion resembled more the generation of a gas than the slow erection of a structure: and thus matters will remain so long as the engagements which a firm may come under beyond the amount of its capital, are practically subjected to no control or limit beyond what a firm may impose upon itself,—which, with submission, I contend to be no check at all. Which of us has not a higher opinion of himself than the vast majority of our neighbours would consider warrantable? Is there, absolutely, any limit to the sum one would trust himself with? The same principle that warrants our borrowing £100—viz., a reasonable prospect of paying it back again—may warrant our borrowing £100,000.

But is it reasonable—is it strictly honest—that any man should constitute himself the sole judge of the extent to which he shall borrow and apply the money of other people? The natural right of prescribing the limits of credit should clearly rest with the lenders, *not* with the borrowers of money—for it is the lender's property that is to be put into the lottery of speculation; and if the drawing shall prove a blank, the loss is usually the lender's, not the borrower's, for he cannot well be said to have lost what was never his to lose.

Limits are assigned to our incomes. We are amenable to the law for our very words. A man may not appropriate his neighbour's watch, neither may he repudiate his own acceptance. The very fashion of our coat-tails is determined by a law more binding than the statutes; in a word, society is a labyrinth of checks, counterchecks, and limits; but to *mercantile credit* there is absolutely (as things are managed at present) no practical check whatever. Unseen and unsuspected it may expand and spread until it pervades the whole vast extent of our commercial system; and, like the fire-damp, become known only by explosion.

If the acceptances or other liabilities of any particular firm were to centre in one bank, and thus become known *in the aggregate* to its bankers, doubtless the present system of blind credit would receive a merited and

mortal check ; but this is impossible. The engagements of our greater houses must of necessity be scattered over the face of the country as at present—here a little, there a little, each banker knowing how much he himself holds of their paper, but of their aggregate engagements knowing nothing ; laying the while the flattering unction to his soul, that his few thousands upon a house worth its plum, are as remote from hazard of non-payment as the bank notes in his till.

I repeat, then, that as far as I can see the best corrective of an evil which has been productive of losses, misery, and mischief, beyond the reach of estimate, would be found in an occasional inspection by bankers of the books, or balance sheets of their customers.

But we have digressed slightly from the direct course of the subject : let us return to the point at which we diverged. I said, then, that the draft of Mr. Bowdler on his friend Starkey—inasmuch as the nature of it was perfectly known to you—was hardly to be placed in the same category with the counterfeit drafts of Mr. Philip Barnes upon his correspondents the Wiggleses. Still less is Mr. Bowdler's "bill"—indifferent as it may be, in many respects, as a banking security—to be confounded with the paper of those benevolent individuals whose lives are devoted to the relief of traders in distress, and who, for the merest trifle, will send you by return

of post the acceptance of the eminent house of *Doem Brown and Co.*, in lieu of your own, for any given amount. The bill, Bowdler on Starkey, in fact, is drawn to represent *a temporary loan or advance*, as much as the promissory note is which individuals sometimes draw, and bankers sometimes discount, with or without security. Although such instruments, therefore, are not strictly to be classed as bills of exchange, still less are they deserving of the classification, "kites." An intermediate term—"bills held for advances," for instance,—or, for the sake of brevity, "loan notes," would better express the nature of such instruments, and, at the same time, preserve an intelligible distinction betwixt them and the actual commercial bill.

Some such distinction is necessary, if a country banker would at all times know the exact position of his resources ; because, in a financial sense, these "loan notes" are, in all essential respects, tantamount to so many overdrafts, or advances upon open account. The difference is, that the overdraft is represented by cheques ; the advance by promissory notes or bills. The cheque leaves undetermined the date of repayment, that being fixed by mutual consent. The loan note certainly fixes the date of repayment, but does not insure it. Practically, perhaps, it will be found that in dealing with a client of strict honour, and sound business habits, the repayment of any temporary advance to him,

to the very day, will be as certain as if you had bound him to the date by a promissory note ; but where you have your choice, which usually you will have, you will of course give the preference to a note or bill, invariably ; because, indifferent as the loan note is, as a banking asset, it is nevertheless preferable, as such, to an overdraft.

We must now, at least for the present, quit the subject of discounts. I have not touched upon the *foreign* bill of exchange ; because such instruments rarely find their way, I presume, to Huggleton, or if they did, would be extremely difficult of negotiation amongst your tradesmen, particularly if conceived in Portuguese, or high Dutch, or Danish. I have purposely abstained also from entering upon the *law* of the subject, not because I undervalue the importance of your having at least an elementary knowledge of the law of bills of exchange, and of the law as it concerns banking transactions generally, but simply because I am incompetent to direct this branch of your studies, even if my inclinations ran that way, which however they do not, but very much the contrary. I must, therefore, refer you to Mr. Chitty, and trust that by the time you have reached the 962nd page of the 8th edition of his able and elaborate treatise, (including all the marginal references, foot-notes, and cases in small type,) you will have a much clearer conception of the law of bills of exchange than I had under like circumstances.

But do not rely upon your legal attainments over much. Trust rather to their enabling you to keep out of scrapes, than to their getting you out again when once in ; or you will find that a little law, like something else, is a dangerous thing. In every case involving a legal difficulty, give yourself "the benefit of the doubt" invariably, and throw the *onus* upon your head-office, or local solicitor. One of the most troublesome Managers we ever had in the —, was afflicted with a conceit of his legal acumen, which assisted him to practical conclusions now and then, which, if they did not make the angels weep, certainly made his Directors storm.

. LETTER IX.
SECURITIES.

THE GROUNDS UPON WHICH A BANKER IS ENTITLED TO
REQUIRE SECURITY FOR ADVANCES.

Let us now pass to the subject which forms the heading of this letter. In certain respects, bills of exchange come within the meaning of "securities" as much as do personal bonds, mortgages, or railway shares; but the usage of bankers is to give a distinctive place and importance to bills of exchange as such, and to apply the term "securities" as significant of bonds, stock, title-deeds, or other instruments, held as *collateral* security for loans, discounts, or advances; and in this sense I propose to use the term. To apply the term, which is sometimes done, as synonymous with a banker's *assets*, is to create confusion: because a banker's assets do not consist of his securities—which may greatly exceed in value his assets—but of certain loans or advances which constitute liens upon those securities.

Before entering into detail, however, it may be well to disabuse your mind of certain grave errors which you appear to entertain on the abstract question. "I am of opinion," you tell me, "that it should not be a rule absolute

amongst bankers to require security for advances ; that cases are of daily occurrence, in the experience of every bank manager, of parties of visible means and unquestionable responsibility requiring advances, whom it would be impolitic and unnecessary to ask security from, and who would be highly indignant and irreparably offended if you did, and would take their custom elsewhere."

But if the rule were absolute, their custom would remain, I apprehend, seeing that they could not better themselves elsewhere; and as for their indignation, it might take its own time to cool. But, supposing the rule to be absolute with you, and only occasional with your competitors, and much custom to be lost to you in consequence, their gain at best would be an enlargement of their connexions, at the sacrifice of sound banking principle. The rule, moreover, *is* absolute with the Bank of England, and with the general body of London bankers : and if it is practicable in the very centre of our monetary system, why should it be impracticable and impolitic at the extremities ?

I do not mean to assert that there may not be individuals perfectly trustworthy without security ; but I do assert that no one whatever is so trustworthy without security as with it. I know many whose individual responsibility I would consider undoubted for large amounts ; but neither is my judgment infallible, nor have I the gift, any more than my neighbours,

of foreseeing misfortunes that may overtake and ruin the best of men. Now, reverses of fortune have overtaken, and—unless the ordinary course of things become materially changed for the better—they will continue to overtake persons of the largest property and responsibility now and then.

Have you fairly taken this consideration into account? Say, for example, that for a gentleman of “visible means and unquestionable responsibility,” you discount his promissory note at three months’ date for £1000, without security, as you propose. Taking all the expenses of your branch into account, your clear profit upon the transaction will be limited to your commission upon it—that is 5s. per cent. for discounting the bill, and a similar rate for retiring it when due (if it shall happen to be met), in all £5. Now, should this bill become a total loss—and likelier instruments become so daily—it follows that you will require to discount *two hundred fresh bills of £1000 each*, or encounter fresh risks to the amount of £200,000, to make up your loss.

Now, in grave earnest, are the chances 200 to 1 in favour of any individual whatever, that he will meet his promissory note when due? Out of any 200 advances made to individuals, however responsible, without collateral security, is it a moral certainty that *all* will be faithfully repaid? And yet, if but one fail you—if out of a couple of hundred different advances made without security, even

199 are punctually repaid and *one* not, you have run this enormous amount of risk for nothing—the 200th part of the principal, if lost, swallows up your entire profit upon the transactions.

The only safe course, therefore, is never, in any instance, to depart from the principle. It is not enough that you have done so, in a variety of cases successfully, because one solitary reverse swallows up the entire fruits of your successes. What would it comfort you that a broken-kneed horse had carried you a long day's journey, and *only* came down in sight of your resting-place? And yet the principle which you advocate, of making advances in certain cases without security, has broken down so often, and so miserably, that those who trust to it merit, for their temerity, the bruises and mud which inevitably await them.

It may, as you state, be a trial to your feelings to have to refuse an advance to a gentleman of excellent family and disposition, with whom probably the previous day you have dined, and with whom you are in the habit of constant and friendly intercourse. But this is on the hypothesis that a banker is entitled to *have* feelings, which, however, the best authorities distinctly deny. "Business is business," they will tell you; and there is no more occasion for the exercise of "the feelings" in declining to lend a gentleman money without security, than in declining to make a

bet, or go a voyage, or make a tour with him, or anything else that is simply inconvenient. It may be an amiable weakness to think and act otherwise ; but if a bad debt, or a series of them, is to be the price of this amiability, the sooner your disposition is soured the better. I would remark, further, that the gentleman who places you in the unamiable position of having to refuse his cheque, is himself the aggressor. And, as by that act he shows no respect for your feelings, it does not appear upon what ground you are called upon to show any unusual tenderness for his.

When a gentleman of property obtains a loan from a *private* individual (to view the subject from another point), the usual basis of the loan is a mortgage upon the property of the borrower—an instrument attended with an expense which renders the terms of the loan always heavy, oftentimes excessive.* If

* Since this was written, happening to enter into conversation with a legal gentleman on the subject, he informed me, by way of illustration, that he had just received for perusal, on behalf of a client of his, a mortgage deed for £150, extending over five skins of parchment, and that the probable cost of the instrument will be £25 ! The money bears 5 per cent. interest, and is re-payable at six months' notice. Consequently, if the unfortunate borrower has to repay the money at the end of the

First year, he will have paid for his

loan equal to interest at the rate of $21\frac{1}{2}$ per cent.

If at the end of the *second year*,..... $13\frac{1}{2}$ „

If at the end of the *third year*,..... 10 5-9ths.

and so forth.

the private lender, then, obtains security for his loan from men of the best property in England, not only without a grudge but as a matter of course, upon what ground is *the banker* called upon to make advances without security? His money is as precious to him, I apprehend, as money generally is to other people; although, certainly, to hear some persons talk—and sensible people enough in other respects—you might be led to suppose that this were not so, but, on the contrary, that a banker's resources were inexhaustible; and that losses were of little or no account to him, because of some mysterious agency whereby he can create money to any amount at will. They fancy that we have got the gift of Midas, but innocently give us credit for having got his ears as well.

But it will be argued that there is a material difference betwixt a temporary advance, such as is usually obtained from a banker, and the permanent loan which is usually obtained on mortgage. There is this difference, certainly:—There is less chance of any one wasting his patrimony in three months than in three years; and whatever you can make out of this difference in favour of advances without security, you may. But bear this in mind—the moment your money goes, you have only left you a promise in its stead—a promise that may or may not be fulfilled, according to circumstances; but, in the case of the mortgagee, he has not only

a promise, but a something besides, which, generally speaking, will render that promise effectual. Once *your* money is advanced, for whatever period, the risk is taken ; and the question is, not whether the risk shall be taken for days, months, or years, but whether it shall be taken at all ?

If a banker in his business capacity stood exactly in the same position as any other individual of the community, there could be no objection to his lending out moneys without security, (if such was his humour), on the principle that a man has the right to do what he likes with his own : and in the case of a private banker, we cannot reasonably object to his disposing of his *own* capital to its full extent, in any manner he may consider most conducive to his own interests. But as one of the managers of a joint-stock bank, you cannot claim even this extent of latitude, because even your capital proper is not the private property of your directors and managers, but of other persons as well ; and therefore constitutes *a trust* as much as the moneys do which lie in your hands and constitute your deposits.

I hold, therefore, that the same principle which recognizes trust-money as sacred to the purposes of the trust, is not less applicable to the entire capital and resources of a joint-stock bank ; and as the safety of the principal in the matter of trust funds is always paramount to the question of interest, so the safety

of your proprietors' capital and customers' deposits should be paramount at all times to the question of the dividends upon your stock.

If the principle of requiring security for advances, in all cases, without respect of persons, had been adopted from the outset of joint-stock banking in England, and rigidly adhered to, less business, perhaps, would have been transacted by the banks, and lower rates of dividend declared and paid ; but the business done would at least have been more legitimate, and the dividends declared less fictitious. Many persons of sanguine dispositions would certainly have been deprived of the means of speculation, but at the same time numerous families who had staked their all in bank shares would have been saved from ruin.

It would be a curious and instructive calculation (were it possible) to ascertain what has been the exact cost to joint-stock banking in England, of advances made without security. In one scale place the total amount of profits realized, and in the other, the total losses sustained upon uncovered advances, and who shall doubt which scale shall instantly, and with a vengeance, kick the beam ?

The losses arising out of uncovered advances, within very recent memory, indeed, have been of a magnitude sufficient, one might suppose, to impress upon the minds of bankers, one and all, with a force that should be irresistible, the danger of such advances, and the necessity of

rendering security henceforward a *sine quâ non* for money lent or advanced.

To give to this principle immediate and general effect would no doubt require a greater degree of concert on the part of the banks throughout England than at present exists: and it is unquestionable that no bank can act upon the principle rigidly, whilst its immediate competitors play fast and loose with it, without sustaining a considerable diminution of business. But against the loss of revenue consequent upon a diminution of your business, place the losses that may be attendant upon a continuance of the present system, and the probability is, that in the long run the loss would prove a gain.

That section of the public who have acquired the habit of drawing cheques with a comfortable indifference as to the state of their balances, and who have come to regard an overdraft less as a favour, apparently, than as a matter of custom and right, would naturally exclaim against the adoption of a principle that would bind them down to a more rigid system of business and a diminished laxity of credit; but once the principle became general, and was understood and recognized as a fundamental rule of banking, the cry would subside, as many a stronger and better-founded cry has done before it.

LETTER X.

SECURITIES—*Continued.*

PERSONAL GUARANTEES—DEPOSIT OF TITLE DEEDS—
INELIGIBILITY THEREOF AS A BANKING SECURITY,
IN THE PRESENT STATE OF THE LAWS AFFECTING
REAL PROPERTY.

It was the object of my last letter to convince you that it was the banker's duty, as well as his right, *invariably to demand security for advances.* Let us now proceed to inquire *what description* of security a banker should demand or take.

I apprehend, then, that if a banker has any one object more than another in view when he stipulates that an advance shall be covered by security, it is this : that, failing the punctual repayment of the advance by the borrower himself, the security taken shall be such as to insure the due fulfilment of the engagement without him. If the security is *not* taken with this view and for this specific end, it becomes a reasonable inquiry, what the security *is* taken for ? I am quite aware that in cases where security is demanded merely *pro formá*, because of a faith in the responsibility of the borrower without security, a certain laxity is apt to prevail ; and that securities thus taken, when a reverse comes, are strongly

suggestive of the belief that they must have been taken for something else, seeing their total inadequacy for their ostensible purpose. But this is beside the question, and is only illustrative, not vindictive, of a departure from sound principle. The security taken by a banker, I repeat, ought to be such as to secure, to the best of his judgment, simply what it professes to secure, viz., the punctual repayment, in case of need, of the advance which it is taken to cover. In this self-evident definition we are furnished with a gauge wherewith to measure the claims of any instrument whatsoever to rank as a proper banking security ; and I now proceed to apply the gauge accordingly to those contents of your "Register of Securities," which you have furnished me with, by way of sample.

"PERSONAL GUARANTEE *by B—— to secure repayment of advances to John Smith to the extent of £1000.*"

Your remark upon this security is : "I know Mr. B. to be possessed of unincumbered property to the full value of the guarantee." But if you do not know Mr. B. to be possessed of property to a much larger amount than that expressed in the guarantee, I greatly question the propriety of your having taken him as security for anything like the money ; because, if Mr. Smith should fail to repay these advances, could his surety *at once* make up the deficiency ? If not, the security

is unsound. It is altogether an erroneous and dangerous conclusion—although a common one—that a man is good security to a bank *for whatever he is worth*. He is good security to a bank for what he can readily and conveniently PAY, over and above his other engagements, and for no more.

The question, therefore, is not what you can eventually squeeze out of a man, but what he can, at any time, and without difficulty, pay on demand : that is the measure and the extent of his eligibility as a surety. If you take him as surety for *more* than this, you do him a serious disservice ; because you thereby become a party to his undertaking a risk that may involve him and his family, some day or another, in difficulties—perhaps ruin.

It is a tolerably certain case, that if a party is called upon to pay a guarantee for a sum equivalent to all that he is worth, you must either compound with him, or break him up. Now, a party's estate or property has always two values, viz., a value to himself and a value to his creditors—a value before and a value after bankruptcy. A man's furniture and plate, his house and grounds, his books and pictures, his stock-in-trade and book-debts, have cost him a certain sum, and it would take an equal sum to replace them ; but send such an estate through the Court of Bankruptcy, and it will not be the fault of that remarkable institution if you know the estate when you see it again. When you

receive the first dividend-warrant, your natural impression will be that there must be a great mistake somewhere ; which no doubt there is, our system of bankruptcy being about the greatest mistake now extant. I have seen a goodly but small estate go into Court with fair promise of 15s. in the pound, re-appear, after the lapse of years, in the shape of a first and final dividend of a shilling and a painfully minute fraction of a penny in the pound to every body. Even if you take the milder process of an assignment, and bring the estate to the hammer, the result will be extremely disastrous : the value to the owner, and the value which the articles will realise, will present some such difference as may be presumed to exist betwixt the value of a steam-engine in full working order, and the value of the same engine if you break it up and sell it for old iron.

To find the amount, therefore, for which any given individual is proper security to a bank, a safe rule to follow is this : ascertain, as accurately as it is possible to ascertain, his presumed wealth, divide this by *ten*, and the result will be the sum required.

You will smile at this novel application of the rule of division. But express the proposition in other words ; say that a man, presumed to be worth £5000, is good security to a bank for £500, and the novelty will not appear so startling. With this observation, I pass to your next.

“DEPOSIT OF DEEDS (*nineteen in number*) constituting the title of *Edward Finchant to the farm of Oakfields, with Memorandum by said E. F., depositing them in the hands of the bank as security for advances to himself to the amount of £2000.*”

I take it for granted that you have the very best authority for believing, as you state, that the farm is “amply worth £2500;” that you know the property, its position, resources, and fertility intimately; and that, in short, you would not hesitate to give the money for it yourself to-morrow, if you had the money to invest. Am I correct in this, or is your knowledge, as is too often the case, the result of mere hearsay, and your chief authority in the matter Mr. Finchant himself?

You have not perused the deeds yourself, you admit, but you feel quite confident that Mr. Finchant’s solicitor saw that the title was very clear before he would have allowed his client to pay the consideration-money. This may be true; but would you be satisfied *yourself* to take the title on this showing, supposing you were to become purchaser of the farm on your own account? Mr. Finchant’s title, moreover, is now rather an old one; it is old enough, at all events, to have permitted the execution of certain settlements, deeds of gift, and the like; instruments which, I need not remind you, do not necessarily accompany the deeds which constitute the direct title to a property, nor are necessarily

accompanied by them. As the signboard over a shop door does not of necessity indicate the legal owner of the goods within ; neither does the ultimate deed of a series, *of itself* always indicate the real owner of a property. It is not absolutely impossible that Mr. Edward Fincham may be his own grandfather (if I may so speak), because there is nothing in the name itself to preclude its having run in the family for generations.

You excuse yourself, I see, from having perused the deeds, on the ground that you would not have been much wiser if you had ; which I think extremely probable. But your plea for not having submitted them to the perusal of your solicitor is indefensible. Mr. Fincham, you assure me, would never have submitted to the expense ! By such a plea as this you give me the right to infer, that if Mr. Fincham had objected to the interest upon the advance, you would have abated that as well. This gentleman came to borrow from you £2000, and the main condition of the arrangement, I presume, was that in consideration of your lending him that sum, he would place certain securities in your hands. He could hardly have supposed that you would have taken his deeds "in the lump" as a valid security. He must, therefore, have been conscious that to render the securities satisfactory to you, they would have to be perused by your solicitors, and that lawyers, as a class, are not prone to perusing

title-deeds and giving responsible opinions upon them for nothing. But, if Mr. Finchant was unconscious of all this, it was your duty to bring him to his senses by declining the transaction upon any other terms.

If, instead of a brown paper parcel, purporting to contain the title to the farm of Oakfields, Mr. Finchant had brought you a box alleged to contain the value of £2000 in ingots of gold and silver, and upon the strength of this allegation you had made the advance, and discovered, when too late, that the box contained brick-bats only—would it be any excuse for your want of caution that you could not have estimated the value of the imaginary ingots with any degree of accuracy?

But, for the sake of argument, I will assume that the deeds in question really give to Mr. Finchant a good and valid title to the property, and that you have a good equitable mortgage or lien upon it, through your memorandum of deposit. In the event, then, of Mr. Finchant failing to repay his advance at the stipulated time, will the security which you hold enable you instantly to reimburse yourself? I apprehend not.

You will find yourself in a position not unknown to a certain eminent statesman of the day, viz., with three courses before you. You may endeavour to persuade Mr. Finchant into concurrence in an immediate sale of the property (an extremely doubtful event.) Secondly, you may induce some mutual friend

and creditor to make him bankrupt—if happily he is eligible, and within the meaning of the Act—in which case a conveyance may be had through his assignees; or, lastly, you may file a bill against him in Chancery. Such are the proceedings necessary for you to realise your rights, under what is pleasantly styled an “equitable” mortgage.

But the right to sell and convey being obtained at last, we shall suppose, by persuasion, or bankruptcy, or a Chancery suit, or otherwise, it does not absolutely follow that you will immediately find a *purchaser* for the property. The chances are, that the highest offer will be considerably less than the lowest figure that you will consent to take. Nor is this at all inexplicable; because if the purchaser is to suit your convenience as to time, he will suit his own as to price. If you will not let him have it at that price, he can wait—he is in no hurry. You cannot wait to sell: he *can* wait to buy. Possibly you put in a reserve bidding—buy the property in, and regularly enter into possession; that is, if you are permitted to do so without having recourse to an action of ejectment—a process not unfamiliar to English law. Your original claim upon the property has meanwhile been seriously augmented by law-costs and arrears of interest; and after months of vexation and delay, you find yourself absolutely possessed, at last, of a security which will yield you interest at the rate of perhaps

3 or 3½ per cent., provided you get a good tenant; whilst the period for repayment of the original advance has become altogether indefinite.

Any practical banker, who has had to realise under an "equitable mortgage," will tell you, that in what I have said upon the subject I have rather under than over-stated the case. I speak, unhappily, from a too-extensive experience of the description of security in question; and if time permitted, or the occasion required, I could extend the list of the difficulties and dangers which surround the "equitable lien," as a banking security, to a tedious and formidable length. But enough, I trust, has been said to induce you to eschew it for the future, until such time, at least, as a radical reform shall have been effected in the law relating to the transfer of real property in England.

Of all the burdens which affect the land of England, amongst the heaviest are the laws so jealously enacted and stringently upheld for its protection and advantage. By means of these laws, the finest security which you can touch, in point of steadiness of value, is rendered the very worst which you can adopt in every other respect. Hence "real" security as a basis for advances is shunned by all prudent bankers; and hence the deposits in the agricultural counties, instead of being kept at home to develop the agricultural resources of the districts out of which they

arise, go to seek employment in the more eligible securities offered by the commercial districts.

It is not so in Scotland, where the *public registration* of deeds is rendered compulsory, and a sure means afforded to ascertain the real owner of a property, and what settlements or incumbrances affect it, even without reference to the title-deeds themselves. In dealing with the landowners, great and small, therefore, the Scottish bankers have an exact knowledge of the position of their properties ; and that fact of itself would go far to account for the comparatively large amount which the Scottish banks are usually under advance to the landed interest. And that these advances have been mainly instrumental in developing the agricultural resources of Scotland, and bringing into cultivation wastes that otherwise would have remained in native desolation and sterility—wastes of which we have counterparts in England, Wales, and Ireland to this day, in millions of acres—is not so much a matter of opinion or theory, as of history and fact.

If, then, the compulsory registration of all deeds whatsoever relating to real property, has had such beneficial effects to the landed interest of Scotland, it is only reasonable to infer that a similar law, if adopted in England, would in process of time have the like beneficial effects here. But, to be of any practical avail, the law of registration must be not

merely optional—as proposed in a bill introduced into the House of Commons early last session—but compulsory. To render the registration optional, would be simply to keep open a door for the continuance of those very abuses which it is the chief purpose of registration to render impracticable, and abolish. You might as well make it optional for bankrupts to render true accounts of their estates and effects.

But we must not stop here ; we must do something also to *facilitate the transfer* of real property in England, if we would elevate the equitable mortgage to that estimation amongst bankers which its steadiness of value would give it above nearly all other descriptions of security. That a “conveyance” of real property can be rendered as easy of transfer as a bill of exchange or a share in a railway, I do not anticipate ; but that the conveyance, as it now obtains, could be shorn of its obscure verbiage, preposterous tautology, and bewildering length, all reasonable people hope and believe to be within the range of possibility. If the first bill of exchange had been framed by a regular “conveyancer,” reduced to shape in a committee of the whole House, and been under the periodical correction of Parliament ever since, it becomes a curious speculation what form and dimensions it would have attained by this time. It is not improbable that an instrument altogether matchless for its simplicity and comprehen-

siveness in title, form, and use, would ere now have become as erudite in form and mysterious in purpose as those instruments with which the ancient co-partnership of John Doe and Richard Roe has had an immemorial but not very obvious connexion.

LETTER XI.

SECURITIES—*Continued.*

DEPOSIT OF MORTGAGE—DEPOSIT OF BONDS—ASSIGNMENT OF STOCK—JUDGMENTS, ETC.—POLICY OF INSURANCE—BILL OF LADING—MORTGAGE OF VESSEL.

Before proceeding further, it may be as well for me to state, with reference to that section of the subject now in hand, that I do not profess to discuss it in *all* its bearings.

As in the matter of bills of exchange, so in that of "securities," I purpose leaving on one side, as far as I can properly leave it, the mere LAW of the question, and for a reason which you will appreciate; for if Mr. Chitty, upon the single subject of bills of exchange, produced a volume of 1000 pages, how many volumes of 1000 pages each could any equally able and erudite compiler produce upon the vast subject of "securities?"*

I shall confine myself as much as possible, therefore, to a discussion of first principles as regards your selection of proper banking

* In a little work, entitled "Chapters on Country Banking," published by Mr. Effingham Wilson, you will find a brief but very lucid and useful compendium of the *legal requirements* of nearly every description of banking security.

securities, with now and then a passing hint of the snares and pitfalls which await you in law and in fact, if you deviate, even temporarily, from the course which those principles render obvious and necessary.

Akin, then, in all material respects, to a deposit of title-deeds, is your next sample—the *Deposit of a Mortgage*. The deposit of the deed gives you an equitable title to it; and what the nature of this title is, we have discussed with sufficient fulness already. There is no necessity, therefore, for our going over the same ground a second time. It will suffice to state that the deposit of a mortgage is obnoxious to all the objections that apply to a deposit of title-deeds. An assignment of the mortgage would certainly place you in a safer position: but you could not act even through the assignment under six months' notice: and if at the end of that time the mortgagor was unable to pay the money—a circumstance by no means incredible—your only resource would be the tedious and uncertain one of a sale of the property mortgaged.

Proceeding down your list, I find several other *deposits* of securities: one of a *Personal Bond*, another of a *Turnpike Bond*, and a third of a *Canal Bond*.

The personal bond, I presume, as is usual with this description of instrument, is subject to six months' notice previous to repayment;

consequently it is at all times six months further removed from the date of payment than a proper banking security ought to be.

With respect to the turnpike and canal bonds, you do not state whether they are redeemable or not, nor if there is a market for them, nor the price. So long, however, as you have merely a deposit of the bonds in question, it matters little whether there is a market for them or not, seeing that, however good the market and brisk the demand may be, *you are not in a position to sell*. As I would attach some weight to this circumstance, I think the sooner you obtain regular assignments of all three bonds the better; because, if you do not, the possibility is, that you may have to procure a title in the first case, and a power of sale in the other two, through the intervention of the Court of Chancery, at your own expense.

“ASSIGNMENT OF STOCK, Furniture, and Book Debts, by P. R., to secure balance of Banking Account.”

The value of the stock, &c., you set down at £3000; but if you had added another cipher to the amount, the security would nevertheless be one of the worst in law, and the most disreputable in character, that you could have taken. It is one of those securities which are technically known “not to hold water.” Like an Act of Parliament, you may drive a coach-and-four with great ease and

success through any part of it. A security over machinery, or live or dead stock, implements, or other articles *which you must identify*, but which may be exchanged to infinitude without your knowledge, is next to no security at all. If the party executing the assignment becomes bankrupt within three months, the deed becomes worthless, and your rights under it *nil*. On the other hand, if it shall survive the three months, it has become a security over a variety of things probably which have no longer any existence. Besides, unless you are in continual and actual *possession* under an assignment, a judgment creditor or the Court of Bankruptcy may come in any day and snap their fingers at you. Beware, therefore, of assignments of stock; and place little more reliance on *Cognovits*, *Judges' Orders*, *Bills of Sale*, or *Registered Judgments* as securities; and be sure that the trader who descends to such means to extend or prolong his credit, is in desperate circumstances, and utterly reckless of his character.

“POLICY OF INSURANCE for £3000 on the life of *Methuselah Hardy*, to secure balance of banking account to the amount of £1000.”

This would be very ample cover for the advance if Mr. Hardy were certain to drop down dead the moment you called up his balance; but the inability to repay a balance of banking account is not always, nor even generally, destructive of the life of the defaulter.

Reverses of fortune do sometimes have the effect of causing a man to lay violent hands upon himself ; but this is a consummation not to be desired in the present instance ; because, if Mr. Hardy should make away with himself the moment he found it impossible to satisfy your debt, the value of your security would shrink to a mere fraction of its nominal amount.

But, if suicide is a contingency too remote to be worthy of consideration, what if Mr. Hardy, finding that he cannot succeed in this country, goes to seek his fortunes abroad—to California, for example ? This is a case of almost daily occurrence ; and yet, according to the rules of the office in which he is insured, the effect would be, absolutely to cancel the policy, beyond the power of redemption.

The fact that punctual payment of the premiums on the policy is guaranteed by a third party, is much in favour of the security, no doubt, provided it shall run its natural course, and the assured shall die a natural death in his native country, and the guarantor continue solvent for the next five-and-twenty or thirty years, which is the average period gentlemen of Mr. Hardy's years may be expected to live, but rather a lengthened currency, I submit, for any banking security to run.

If Mr. Hardy were to offer to you a bill at six months after *date* for discount, even in the present lax and easy state of the money

market, I apprehend you would either decline the transaction altogether, or take it with unmistakeable reluctance, and as an exceptional case; and yet, in agreeing to make him advances on the security of his life policy, you virtually discounted for him his draft at six months after *death*.

I take it for granted that you hold a regular assignment of the policy, and that this has been duly recognised by the Insurance-office; for if you have not this, it would be as easy a matter to square the circle as to find the actual present value of the security which you hold for Mr. Hardy's account.

“BILL OF LADING (*with policy of Assurance*) of hides, *ex Ajax*, (*present market value £525*), to secure a temporary advance of £450 to *A. P.*”

On the presumption that the good ship *Ajax* will arrive safely in port, and that there will then be no just cause or impediment why the hides cannot, in case of need, be placed in the hands of a broker for immediate sale, and the proceeds handed to you entire; and on the further presumption that the hides are of a *quality* to realise the quoted market price—although it is nearly the height of presumption to assume all this—you appear to hold tolerable security to cover your advance; but it is clearly the business of a broker, not of a banker, to make advances on the security of bills of lading. To make such

advances with safety, requires an amount of mercantile knowledge which only experienced brokers possess: and the custom of merchants, and the technicalities of mercantile law, are branches of information which do not come by instinct, even to Branch Managers.

Place even an experienced broker behind your counter for a day, and he would find himself considerably out of his element, and his cash-book and cash-balance in irreconcilable derangement at the close of the day's business: but he would not, I apprehend, be a whit more out of place than you would find yourself were you to step into his shoes for four-and-twenty hours.

“MORTGAGE OF VESSEL—(*brig Rapid*,) *estimated value £1000, to cover advances to L. M., to the amount of £700.*”

To a ship-owner or ship-broker, to any one, in short, who is thoroughly conversant with this description of property, *and can look after it*—making it his business so to do—a mortgage on a vessel is a fair average security, if he take margin enough; but to a banker it is difficult to imagine a less eligible description of cover. Speaking generally, we bankers know little or nothing of shipping. We are neither ship-builders, ship-owners, ship-brokers, nor master mariners. One-half of our number, I verily believe, would find it hard to tell the stem from the stern-post, the bowsprit from the mizen, the larboard from

the binnacle, or the cutwater from the cat-o'-nine tails. Any cabin-boy in England might smile at our ignorance. And if it shall be your misfortune to have to realise your mortgage, the probabilities are that you will find yourself very much at sea in spite of yourself, and heartily sick—of shipping securities.

LETTER XII.

SECURITIES—*Concluded.*

TRANSFERS AND DEPOSITS OF RAILWAY SHARES—SHARES
IN COMPANIES—MINING SECURITIES—SUMMARY.

Beyond comparison the best security on your list is that which I now proceed to quote, viz. :

“RAILWAY STOCK—*Ten shares of £100 each, London and North Western Railway, standing in the name of our registered public officer, to cover advances to C. D. to the amount of £1000.*”

These fulfil the conditions requisite in a sound banking security : that is to say, if C. D. fail, at the proper time, to repay his advance, you can instantly reimburse yourself, independently of him, by a sale of his shares : for, startling as have been the fluctuations in railway property of late years, and prodigious the depreciation in its value since the famous '45, the circumstance of North Westerns at par has only been witnessed once, and that temporarily.

Apply this test to any one of the securities which we have already passed under review,

and it will be found defective. *Absolute convertibility, at will, into cash* is a quality which obviously pertains neither to personal guarantees nor to deposits of title-deeds. Under the most craftily drawn assignment, the power in question is not absolute—neither is it so in bills of lading, nor in mortgages of vessels—it is far less so in policies of insurance.

As your advance to C. D. stands at present, indeed, you are actually his debtor. Were he to become bankrupt to-morrow, you could, by a sale of his shares, not only reimburse yourself the money which you have advanced upon them, but have a surplus besides to hand over to his estate. The *paid-up* stock of any honestly-managed Railway Company, indeed, *with a good margin* to cover any probable depreciation in its value, is equivalent as a banking security to a transfer of Consols, or a deposit of Exchequer Bills; because you have the same ready market for either, the same absence from liability, and the security in respect of each is undoubted.

In several instances, I observe that you content yourself simply with a *deposit* of railway shares or certificates, accompanied by a *transfer in blank*. Where you are dealing with parties quite undoubted for the advances, irrespective of the shares, this is perhaps a justifiable risk to run, but not otherwise.

Your transfer in blank will not avail you against certain contingencies that may arise, if your debtor shall happen to become bankrupt before the transfer has been filled up, and the shares actually transferred into the name of some one on behalf of the bank. Should this precaution not be taken before the fiat is issued, you may have to hand the shares over to the estate, and take your dividend with the rest of the creditors.

“ One hundred shares Eastern Grand Trunk Extinction Railway, (£25 paid) on account of the debt of W———.”

Your history of this security is instructive. “The debt of W——— becoming doubtful in the autumn of 1845, we took from him, in lieu of cash, such securities as he could give, and the above amongst others. There were then only £2. 10s. paid up on each share, and they stood at £5 premium. As it was considered certain, however, that they would go very much higher, a sale was deferred. Then came the great scrip-panic of '45, after which it became impossible even to give them away. Call after call was paid without in the slightest degree enhancing the value of the shares—no more than if the money had been paid upon some totally distinct line, or thrown into the sea. The present value of the shares is about £5 each, so that, in fact, we have lost upon them by delay £2500.”

Any comment upon this would be superfluous. But unfortunate as the "Extinctions" have proved, your next example is still worse.

"*Fifty Shares in the United Inexhaustible Flag Quarry Company,*" also taken, it would appear, for a doubtful debt, after the manner that drowning men catch at straws. You have already, you state, paid £45 a share upon these since they came into your hands—no dividends have been declared for years—the concern is heavily in debt, two-thirds of your co-partners are bankrupts, and the extent and end of your liability no man can tell. Now, even in the "Extinctions" there was *a limit* to your liability; you knew the worst from the first, and there was a grim satisfaction even in that; but who shall say what amount of contribution will liquidate the debts of the "United Inexhaustible?"

It would, therefore, seem to be a very necessary precaution on the part of a banker to beware that in grasping at a security, he does not clutch *a liability* instead. You have, doubtless, witnessed a tyro learning to swim by the aid of bladders. The risk the would-be-swimmer runs, is in the bladders slipping down to his midriff, and elevating that region of his person to the position which his head ought to occupy: and this is unhappily your present position with the

debt in question ; you let your opportunity slip, and now your debt is where I trust your head will never be—considerably under water.

Proceeding from bad to worse, we arrive at—

“*Lease of the Wheal Ruinall Copper Mine*,”—another security, held for another doubtful debt. “We are working the mine on our own account,” you remark, “but, I believe, to little advantage, until we can find a purchaser.” It would be impertinent to inquire, perhaps, how far the working of the mine on your own account has enabled you to *reduce* the original debt: but there is one remark with regard to this description of “security” that I would have you lay seriously to heart, and it is this: that when a bank takes upon itself the working of a factory, a mine, or any other concern *which has ruined the original adventurer*, it is a tolerably fair inference that the bank will not make a fortune by it. If a man cannot succeed in his own business—the business which it has been the study of his life probably to master—it is inconceivable how another person, or body of persons, totally unacquainted with the business, can hope to do so. There is about the same chance of a banker succeeding as a manufacturer or miner, as there is of his properly commanding a ship, working the mail, or conducting the practice of surgery.

Nor is the direct loss which he usually sustains in such undertakings all ; because in looking after them, his attention is distracted and withdrawn from his legitimate business to an extent more or less damaging, according to circumstances ; and thus, instead of following one or the other vocation singly and well, he follows both by turns, and both badly.

Once fairly embarked in the adventure, moreover, the necessity for "going through with it," becomes more urgent with every fresh thousand sunk—and a banker's "alacrity in sinking," under such circumstances, will be generally conceded. "One shaft more—one very little drive—a few yards more to the main level, and fresh leather to the pumps—and then——"

And then, in ninety-nine cases out of a hundred, you are precisely where you were, *plus* your fresh outlay. "But what could we do ?" you ask. "If we had allowed the mine to fill with water and run waste, the penalties of the lease are positively frightful ; and as for a purchaser after *that*, we should have had to pay a handsome bonus to any one to take the concern out of our hands. In short, we had either to pump or sink, although, of course, we would much rather have done neither."

As you appear so averse to the pumping, and probably entertain a still stronger disrelish for the sinking, and furthermore, as you ask my opinion, I would respectfully suggest that

your better course would have been—never to have got into the dilemma at all.

This must conclude your “sample.” I have passed over certain of its contents, because they are referable to one or other of the various descriptions of securities which I have already commented upon, and therefore do not call for special remark.

I find, then, that these securities require from you a variety of information, which you will excuse me for doubting that you possess. You are a railway proprietor—that, however, may pass; but you are in danger of becoming a landed proprietor as well, which is quite another matter. You are a quarrier, by proxy, of the United Inexhaustible Flag—a handicraft in which your friends may wish you unbounded success, but will be prone to fear the worst, notwithstanding. You are working a copper-mine, from which, by your own confession, you are realising “more kicks than coppers.” Then you are the mortgagee, and in due time may become the registered owner of the brig *Rapid*; although I could have wished, without disparagement, that she had fallen into better hands. As general broker, you do a gentle stroke of business in hides; and if misfortune should overtake P. R., we shall have a sample of your qualities as a green-grocer. Banker, railway proprietor, land-owner, quarrier, copper miner, broker, ship-owner, and green-grocer! Why,

the Admirable Crichton himself had not a versatility of talent like this. In your single person, you aspire to conquer as many difficulties as certain vendors of patent quackeries do to subdue diseases—and, it is to be feared, with about equal success.

You meet this by the sweeping disclaimer that three-fourths of the securities were taken *after* the advances had been made, and to save the debts from becoming total losses. But why have made advances which compel you at last to take securities of which, as a banker, you are ashamed? It is an indifferent excuse for a ragged coat and dubious inexpressibles, that the previous excesses of the wearer have left him nothing better. Is it any better excuse for a discreditable list of securities, that the previous imprudence or folly of the banker left him no better choice?

We are, therefore, you see, driven back again to the point at which we started. Arguing from cause to effect, we laid it down as a rule that a banker ought never to make advances uncovered by security: arguing from effect to cause, we arrive inevitably at the same point.

Proceeding a step further, our next proposition was—that the security taken should be such as to render certain the punctual repayment of the advance which it was meant to cover. The proposition is a simple one, and about as obvious as that things which are equal to the same thing are equal to each

other ; and that I have dwelt upon it at such length is to be attributed to the necessity I found myself under, not so much to demonstrate its accuracy, as to convince you that half-a-dozen was not equivalent to six dozen, nor any quantity of ciphers to half-a-score.

Glancing back over your list of securities, and considering their multifarious, and, in too many cases, dubious character, and the prodigious tax upon your time and talents which they have been, and must continue to be—I would say to you, *get rid of three-fourths of them* at once, without a sacrifice if you can, but at all events get rid of them. This done, take especial care to saddle yourself with no such rubbish again. Reject as a banking security everything that is not readily convertible into money. In short, turn over a new leaf, and MIND YOUR OWN BUSINESS.

LETTER XIII.

CIRCULATION.

**A BANKER'S LIABILITIES GENERALLY—CIRCULATION OF
DRAFTS AT VARIOUS DATES, AND AT SIGHT—CIRCU-
LATION OF NOTES.**

My last letter brought to a conclusion our discussion of that section of the subject which has had specific reference to the series of accounts which constitute your **ASSETS**. Let us now proceed to examine the nature and operation of your **LIABILITIES**, a subject which will more readily be disposed of; for it will be generally admitted, that if a banker will but properly look after his **Assets**, he may with great safety allow his **Liabilities** to look after themselves: indeed, his depositors and note-holders manage that section of the business for him with singular watchfulness and assiduity.

Striking out the minor headings of *Bills for Collection*, and *Credits from Branches and Agents*, both of which are Deposits in effect,—(the bills as they fall due and are paid, the credits as they are opened)—and which do not, therefore, call for special remark,

you divide your Liabilities under the following heads of account :—

Drafts on London in Circulation.

Notes in Circulation.

Deposits.

Now, the distinguishing feature of a banker's liabilities would appear to be this—that he must give cash for them when demanded, whether convenient or otherwise ; whereas, with regard to his assets, he has the power of refusing to discount bills or make advances, when he chooses to exercise it. A run upon your deposits and notes, therefore, and a run upon you for discounts, are not synonymous in effect ; the one must be met ; the other need be met by nothing but a flat refusal.

Your deposits and circulation are increased or become diminished by causes over which you can exercise no direct or effectual control : they are governed in amount wholly by the operations of your customers. On the other hand, the control of your advances or assets rests solely with yourself. But how far your advances should be regulated by the movement of your deposits and circulation, is a question which belongs to a higher range of banking science than we have ventured upon in the present “Course.” When you attain to the style and dignity of GENERAL MANAGER, I may be induced, perhaps, to enter upon the higher course referred to, and to which this present correspondence may then serve as an introduction.

There are some observations, however, which may have place here without exceeding the scope of our present theme; and first, as regards—

DRAFTS ON LONDON. When you issue a draft on your London agents, at twenty-one days' date for £100, your remuneration is presumed to arise from the use of the money from the time you receive it until the date you have to pay it back in London. Now, it depends entirely upon circumstances, whether even a draft at this date brings you a profit. If your cash reserve, for example, is at its usual maximum, and the money is paid to you in specie, then the sum lies in your hands useless, probably for weeks together, until other transactions shall have increased your reserve to an amount sufficient to warrant the transmission of a portion of it either to the head-office or to another branch. Or, if the money be paid to you in the notes of other banks, you transmit them to London; and it will depend upon the state of your London account whether they will be of much or any profit to you, even then.

But whilst the profit of such transactions is purely conditional, your expenses in respect of them are absolute enough. In the first place, there is the transmission of the money—a certain expense, whether you remit through the post or by messenger. Then there are the risks of transmission, which a high percentage only would safely cover. Again, so

long as the draft continues in circulation, there is a weekly per centage in the shape of stamp duty to be paid upon it. And again, there is the commission to pay your London Banker for cashing the draft. And to all these fall to be added the expense of book-entry, engraving of forms, letters of advice, postages, &c.

It is true that some banks issue drafts at so short a currency as even seven and ten days' date; and to some banks it may be a gain to do so. If, for example, the local exchange was against your branch—that is to say, if the district in which your branch is located was subject to a constant drain of specie from other districts, which you had to rectify by frequent supplies from your head-office—(and such currents in the specie circulation are in constant action in various parts of England)—it would probably be more advantageous for you to strengthen your reserve of specie, by taking gold from commercial men at seven or ten days' date, than by incurring the expense of sending to your head-office for it.

But if the local exchanges are steadily in your favour, which is the rule in country districts, and you have continually to remit specie to head-office, instead of having to receive specie from it, then clearly the issue of drafts at seven, ten, or even fourteen days' date is a losing business.

And it occurs to me, that if you were to

put the matter on this simple and obvious basis, and show that it may be of greater advantage to some banks to draw at seven days than for others to draw at one-and-twenty, you would have much less annoyance in your dealings with commercial travellers than you continually complain of having. They are by no means, as a class, devoid of acuteness, or deaf to reason ; nor would they be backward in ascertaining from what points they could remit to the best or least advantage to London, and in making their calculations accordingly.

And if the banks generally throughout England would be guided more by their own actual requirements than by the custom of their neighbours, in determining the date at which they would draw for cash on London, they would effectuate in some measure a freer and less expensive movement of the metallic circulation, and commercial men would become the means of conveying specie from those districts where it was overabundant to those where it was in demand, by inducements at least commensurate with the expense and trouble of conveyance. A traveller, for example, collecting in an agricultural town would rarely prefer a draft from thence at twenty-one days', when the same or next day's journey would bring him to a point where he could obtain a draft at seven days' date,

When you draw on London at *sight*, the

usual charge is 5s. per cent.; and it depends, of course, upon the current rate of interest for the day whether it is more profitable for you to draw at sight, in consideration of the above charge, or at twenty-one days' date free of charge.

There are those, however, who believe, or profess to believe, that this rate of charge is too high, and that a commission of 2s. 6d. per cent. would be ample remuneration.

I have already stated that it may be of more advantage to some banks to draw on London at seven days' than for others to draw at twenty-one days' date: on the same principle, 2s. 6d. per cent. might be very ample remuneration as a commission to some banks, whilst twice the amount would be inadequate to fairly remunerate others for remittances of money.

I will not again go over the various items of cost involved in the transmission of money from place to place by the banker; but would those who consider 2s. 6d. per cent. an ample remuneration—would they even *insure the safe transmission* of the money from one place to another for the rate they propose?

Be robbed by the way even of a small banking parcel of gold—say £1000—and to make up that loss, at 2s. 6d. per cent., you must run the risk of transmitting *eight hundred* similar parcels, containing a total of £800,000 sterling.

The receiving of money at one place for

payment at another is one of the most useful services which a bank renders to the community, particularly in remote districts; but relatively it is a department of business for which it is worse paid than for any other whatsoever.

There are those, I am aware, who think differently, and believe that by sending bank notes through the post-office in halves they remit on their own account quite as efficiently as through the medium of a bank, and at much less expense. And this belief will continue until the miscarriage or loss of an entire remittance suggests the calculation whether all that the party has saved up to the date of this incident, by being his own remitter, counterbalances all that he has lost? If the loss has been even £100 only, it must be an exasperating reflection, that for a few shillings paid to a banker he could have absolutely *insured* himself against it.

CIRCULATION OF NOTES.—This question, as well as that of deposits, addresses itself more particularly to the Head Manager than to the Manager of a Branch. As far as regards the latter, his dealings both with his deposits and circulation are almost mechanical: but as regards the Chief Manager, the deposits and circulation are facts which give continual exercise to the best faculties which he may happen to possess.

When I say, however, that your dealings with your circulation are mechanical only, I

presume that that amount of judgment is exercised in the matter which shall prevent your notes being issued to a loss. I presume, for instance, that you would not issue your own notes in exchange for gold, free of charge, to a party who you have reason to suspect would instantly cut them in halves, and send them off by next post as a remittance to London or elsewhere. This would be to encourage him in a habit which, if my views are correct, is not to his ultimate advantage, and is clearly of immediate and considerable disadvantage to you. You have received £100, let us say, in gold, for which, in the great majority of cases, you will have no immediate use—very probably the first use you can make of it is, at the risk and expense of transmission, to send it to your head-office, or to another branch. In lieu of this £100 you have given £100 in your own notes, *which will go to your debit in London the day following*. You will have a commission to pay your London banker for cashing the notes; you will then have to reimburse him for the postage of the notes when he sends them back again; and these identical notes will be returned to you at your own risk. In the meanwhile, you lose the interest upon the gold until you can find employment for it. It is obvious, therefore, that under these circumstances you had better at once have given the party a letter of credit on London at sight, *without charge*, for the

gold, rather than your own notes—because, by giving these, you not only incurred all the expense that a letter of credit or draft would have cost, but the expense and risk of getting the notes back again in addition.

I further presume that you would not issue your own notes in exchange for those of distant banks, free of charge, to any one who might take them to your competitors, next door, and procure gold or Bank of England notes for them : because, in effecting the usual exchange or “clearing” with your rivals the following day, you will have to redeem these very notes either in cash or by payment in London. By an operation like this, the party simply makes you a cat’s-paw, to provide him with cash for the notes of distant banks, at your expense.

The legitimate circulators of your notes will be found chiefly amongst your own immediate customers, who will receive them and pay them away in good faith as money—not for the purpose of mutilating them first and transmitting them afterwards to other parts, but in order to pay rents, wages, or book debts—or purchase live or dead stock—or arrange any other species of transaction which requires the use of money for its settlement. The only strangers to whom it is expedient to issue your notes are those who periodically visit your fairs or markets as buyers, and who find your notes a more current medium of interchange than those of distant banks. The

payments made by these parties, if they do not give a prolonged, give at least a legitimate circulation to your issues, and their custom is therefore to be encouraged.

As respects the prevalent custom of cutting notes in halves, I cannot share in the indignation which you express on the subject. You consider the offence tantamount to depositing £5 with your tailor for the safe return of a dress coat, and giving the garment up torn in two when you go to claim your money again. But you overlook the fact that the coat was intrinsically worth the money : whereas, the note is intrinsically worth nothing.

A note cut in halves may be deserving of all the epithets which you heap upon it—"a divided responsibility—a severed tie—a half and half liability—a breach of promise, &c." But it is better to submit with a good grace than with a bootless anger to a custom which has taken too deep root to be now eradicated.

LETTER XIV.

DEPOSITS.

EXPEDIENCY OF SEPARATING DEPOSITS INTO ACTIVE
AND PASSIVE — NOTICE OF REPAYMENT — MANAGE-
MENT UNDER A "RUN."

You seek to distinguish betwixt deposits which are of a permanent and those which are of a fluctuating character, by dividing them into two classes, viz. :—

*Deposit Receipts, and
Balances on Current Account.*

It is not possible in every case to determine beforehand in which of the two classes above-named you will rank moneys deposited in your hands ; and it will sometimes happen that moneys placed to current account will prove permanent deposits, whilst others placed on deposit receipt will prove of a much more active description than you bargained for. But an approximation to the result sought for, viz., a division of your deposits into active and passive, is undoubtedly within your reach.

On Deposit Receipt, as a general rule, you would place the deposits of parties who are gradually accumulating sums in your hands for certain purposes, whether of investment or payment. To deposit receipts, also,

would generally belong the deposits made by farmers, pending the arrival of their respective rent-days. Sums awaiting the completion of title-deeds—or contracts of any description—or sums awaiting distribution by way of legacies, or otherwise—in short, all deposits of specific sums for specific purposes—you would, as a rule, place on deposit receipt.

To Current Accounts, on the other hand, you would place the floating balances of merchants, traders, and all others in active business; because these will fluctuate, even from hour to hour. And to current accounts, also, you would, as far as practicable, place all deposits of an avowedly temporary and fluctuating description, as well as those of which you can obtain no description at all: for, not knowing when such may be called for, it is desirable that you should at all times be in readiness to meet them.

This separation of your deposits into two classes is necessary, less for your own guidance than for the information and guidance of your Directors or Chief Manager, to whom the distinction is of great financial importance. The subject of deposits, indeed, as I have already stated, is mainly a head-office question; but in several respects, which I shall proceed to notice briefly, the subject addresses itself directly to the Manager of a Branch.

I need not dwell upon the reasonableness and expediency of your requiring, as a general

rule, that a certain term of *notice* be given before any deposit is withdrawn, particularly if it is of large amount. I refer, of course, more particularly to that section of your deposits for which you grant "receipts;" but the rule should be extended, as far as practicable, to that other and more fluctuating section of your deposits—the Balances on Current Account; or, if not applied as a rule, there should at least be a tacit understanding between your clients and yourself, that no floating balance of large amount shall be withdrawn short of two or three days' notice. There are very few individuals, having large sums passing through their hands, who could not always give at least this term of notice; there are still fewer who would regard it as an unreasonable stipulation; and, for my part, such persons might take their deposits elsewhere, and welcome.

Nor need I do more than allude to the fact, that by having the great bulk of your deposits subject to notice, you are enabled to employ or invest a far greater proportion of their amount—or, in other words, to work your branch with a much lighter cash reserve—than if the mass of them were payable on demand.

But the chief advantage of having the bulk of your deposits rendered subject to notice is, that you thereby in a manner render yourself proof against sudden and unlooked-for demands of embarrassing amount. A "run"

upon his deposits is to a banker what we may suppose a general conflagration to be to our Fire Offices, or the Asiatic Cholera to our Life Companies. It naturally inspires him with a degree of consternation, commensurate with the heaviness of the run and the extent of his means to meet it—and meet it he must, or sink under it for good ; for the instances are very rare of a bank surviving the suspension of its payments—particularly a bank with branches.

The only individual in the community, indeed, who cannot with impunity request a creditor to call again to-morrow, is the banker. Not that he gets payment of the debts owing to him with less trouble than other people ; on the contrary, the banker is about the last person that a trader—particularly if he is in contemplation of bankruptcy—thinks of paying. Nevertheless, custom so rules it, that the banker shall pay his debts, principal and interest, whenever called upon so to do ; and if he shall fail to do this, the *Gazette* is too good for him.

It is in vain that a thousand channels of intelligence have again and again conveyed to the public ear the fact, that you and all other bankers do not hold the whole of your deposits, in the shape of bank notes or gold, in your tills ; and that to enable you to pay interest upon them, you have lent out the greater portion in making advances, and discounting bills, in the support and development

of the trade of your district. The answer will be, that this may be all very true; that they, your depositors, are particularly sorry, but that—they want their money, and must have it.

But never despair, nor exhibit the slightest trepidation during the fiercest run, because nothing could be more fatal. If those who come first see that you are excited and alarmed, they will not fail to conclude that there is grave cause for your alarm, nor will they fail to tell their neighbours so wherever they meet them; and thus possibly a run, that a little coolness might have averted, may be turned into a rush that will overwhelm you.

But there is another advantage to be gained by your remaining perfectly cool and collected under such circumstances. The run may have come upon you unawares, and when your cash reserve was comparatively low. Probably you despatch your Accountant by daybreak to head-office, for fresh supplies: and it is during the hour or two immediately preceding his return, that your tact and ability will be put to the severest test. Your object is to gain time—nothing more: but in seeking to gain this you are consulting the interests of those panting outside your counter as well as your own: for if they don't get paid that day, it becomes a highly speculative question when they *will* be paid.

Your cashier being away, and your being

consequently short-handed, will be a reasonable excuse for any *slowness* that you may exhibit in clearing your counter of your creditors. That you should count out the notes and specie necessary to settle each successive demand, with unusual care and deliberation—not hesitating now and then to count them over several times—would be a precaution quite excusable under the circumstances. That before paying any cheque whatsoever, you should go round and consult your ledger as to the state of the account against which it is drawn, is likewise excusable ; and if you should encounter some difficulty, and spend some time in finding the folio of the account, and in satisfying yourself by a reference to the day-book that it has been fully posted up—who shall blame you ?

In the case of Deposit Receipts presented for payment, you would necessarily check the calculations of interest in person, and avoid exhibiting any unusual haste or celerity in that process, lest persons might fancy you were labouring under excitement ; so in that of letters of credit drawn upon you, an elaborate comparison of the letter with its corresponding advice, is not to be omitted.

You would, of course, begin to pay every demand *in your own notes*: by which means you would subject your creditors to the painful necessity of inventing a series of fictions on the spot, as reasons *why* they would rather have gold—a choice, however, which you would instantly meet by a mild but reproachful com-

pliance : re-counting the notes before you return them to your till, and slowly replacing them by the species of currency required.

For killing time under the circumstances supposed, an occasional dash at politics and the weather would be found of considerable service. If, in addition, you should conceive an impromptu interest in the private well-being of your creditors generally, their wives, families, and farms ; and keep up a well-directed fire of questions on these interesting topics, and manifest a lively sympathy in the replies, it is incredible what an amount of business you might *seem* to do, compared with the business actually done. Mr. Pecksniff's horse, you may recollect, by the simple display of high and extraordinary action, inspired those who knew him not with a lively hope in his powers of speed.

These hints for conduct under a run will appear to you, perhaps, of an over-bold and questionable character—thrown off more in jest than in earnest, probably. I care not how you take them, provided you baffle, by other and better means, any blind and causeless run that may assail you.

And there are those, if I am not misinformed, who have not hesitated to meet such emergencies by resistance of a more positive and effectual character than the comparatively mild and passive course which I have sketched above. During the panic of 1847, the Manager of a remote branch of a

joint-stock bank called his accountant aside, after the close of business one afternoon, and addressed him in terms something like these : " Now, Mr. — you see how matters stand. I am off to head-office for more cash. You must work the branch through to-morrow *somehow*—I give you *carte blanche*." And he did wisely. His accountant had just that sort of coolness, with a dash of audacity in it, fitted for such emergencies. There was a great rush of depositors with their receipts for payment the next day. He told them, (quietly mending his pen the while) that he was very sorry, but a recent order of the Directors was imperative—" No deposit to be taken *or paid* short of ten days' notice." The Manager, if he were at home, which he would be to-morrow, might perhaps break through the rule ; but as for himself, he was only a clerk, and couldn't afford to lose his situation. And he didn't.

During the same panic, a cashier in the head-office of one of the banks which were then run upon, had a check presented to him for payment of an amount which he actually had not funds in the till to meet at the moment. He, therefore, with a daring humour, wrote in the corner of the check " no funds," which was true enough in one sense—seeing there were no funds in the bank to meet it—and dishonoured the check. The transaction caused the withdrawal of a fine account, but it saved the Bank.

One other anecdote, and relative to the same period, and I quit the subject. The Manager of a certain branch found himself, at the close of business one arduous day, with little over £50 in his till, whilst it was impossible, before afternoon of next day, to increase his reserve. His accountant, a quick-witted fellow, before starting for head-office, quietly locked the cash safe, (keeping the fact to himself,) put the key in his pocket, and took it with him, rightly judging that it would be better for the Manager next day to meet his depositors with no money and a good excuse, than with a beggarly £50 and no excuse at all. The *ruse* succeeded. The Manager had no difficulty in showing what he really felt, viz., a good deal of uneasiness, and the locksmith vainly labouring for hours to pick the impracticable lock, completed the illusion. The depositors, full of sympathy for the Manager, with one accord agreed to call again in the afternoon, which they did, and their demands were satisfied. (I trust the accountant has long since received either promotion or a substantial addition to his salary.)

LETTER XV.

REVENUE OF A BRANCH.

THE RATE OF BANK INTEREST NECESSARILY HIGHER IN THE COUNTRY THAN IN LONDON—THE CIRCUMSTANCES WHICH USUALLY DETERMINE THE RATES OF DISCOUNT ON BILLS—AND OF INTEREST ON CURRENT ACCOUNTS.

The revenue of a branch naturally divides itself into two principal sources, viz., INTEREST and COMMISSION ; and each of these again has its particular sub-divisions, of which more hereafter. In the meanwhile, it would seem necessary to disabuse some of your clients of certain erroneous and embarrassing notions which they appear to entertain on the subject of banking profits in the abstract : and, first, as regards the question of bank interest.

Your rates of interest and discount, then, will fluctuate, to some extent, in accordance with the fluctuations of the money market. A rise or fall in the value of money in London is instantly felt, and generally followed, throughout the country ; because the metropolis is the market sought universally by the country banks, whether they desire to lend or to borrow money. Towards London, therefore, as to a common centre, are flowing continually from the agricultural districts

those banking funds which are found to be in excess of the monetary wants of the localities where they have accumulated : and from London, as continually, are these funds being distributed over the mercantile, manufacturing, and mining districts, where money is usually in demand, and where such funds, therefore, can generally find ready employment : London, in short, is the great monetary heart of England, and its pulsations are felt to the farthest extremities of our banking system.

But in one respect your rates of interest will be invariable—they must invariably be above the London rates. You will follow the London rates, but it must be at a respectful distance—particularly if the tendency is downwards—because you must at all times maintain that difference betwixt the London rates and your own which will make a reasonable compensation for the relatively greater expense with which your business is conducted.

You state, however, that you find the greatest difficulty in making your customers understand this. “I could manage the majority of them tolerably well,” you add, “but for a pestilent little tailor—Clipps by name—who neglects the little business he has to bestow an immensity of thought on the currency. His ‘turn over’ in his business is the merest trifle, but he has a theory of currency, which he turns over with wonderful pertinacity and vigour. In short, Clipps is an oracle

amongst the tradesmen here, and he keeps them in a continual ferment about the iniquity of our money laws in general, and the extortion practised under them by myself in particular ; the difference betwixt the London rates and our own being his constant theme of invective.” [The origin of Mr. Clipps’s hostility to the present system of banking and currency in England you attribute, I observe, to your predecessor having, many years ago, refused to discount for him a small bill upon a dubious acceptor.]

Now, if you discounted the same amount of bills in Huggleton that a London bill-broker does in the course of the twelve months, that might be a good reason—other things being equal—for your adhering to the London rates of discount : but what are the facts ?

On the average, you have under discount bills to the amount of £20,000. Say that your gross profit upon this sum is even as much as $2\frac{1}{2}$ per cent. : this would amount to £500 a year.

A bill-broker, however, would not consider a few millions an overwhelming sum to have under discount at one time. But say a single million, and instead of $2\frac{1}{2}$ per cent., let his profit be only $\frac{1}{2}$ per cent. upon the amount : nevertheless the result would be £5000 a year.

It follows, on this estimate, that a London bill-broker, although he charged five times less profit than you, would nevertheless realise ten times your revenue.

Nor does the expense of his establishment exceed yours in anything like a corresponding ratio. For every £50 bill which you discount, he will probably discount one for £5000 : and the same number of book-entries, the same amount of calculation, time, trouble, and expense generally will suffice to pass through your books the one bill or the other. But your profit upon the £50 bill, if at three months' date, would be 6s. 3d. only ; whereas upon the larger bill, at the same currency, the profit of the broker would be £6. 5s.

The case is different in Manchester, Liverpool, and other great marts, which are second only to London itself in the magnitude of their commercial and banking operations. In these places there are mercantile accounts, the transactions upon any one of which exceed in volume the transactions on all the accounts of your branch put together.

In Manchester and Liverpool, therefore, and in other great towns similarly circumstanced, the enormous amount of business transacted enables the banks to assimilate their rates of discount more closely to those of London than can possibly be done in remote country places, where banking transactions are comparatively few in number and trifling in amount.

Should you, however, find these arguments to be above the comprehension or beneath the notice of Mr. Clipps, there is another ground on which to put the matter.

You are established in Huggleton, then, with

all the means and appliances for conducting many times the amount of business which you transact ; but which, notwithstanding, are requisite to enable you to transact the business which you actually do. You have brought to the very doors of the Huggleton people an establishment, small in one respect, but equal in all others to a bank on the largest scale of magnitude—that is to say, you are prepared to undertake and to carry through any banking transaction whatsoever that any other bank out of London can, and, in most cases, on the same scale of charges.

But change the position of matters, and say that Huggleton shall be without a bank, and its inhabitants compelled, therefore, to travel twenty miles to the nearest town for every banking operation which they have to transact. Will even Mr. Clipps assert that, under these circumstances, his fellow-burghers could conduct their banking business on the same terms that they now do ?

Will Mr. Clipps himself, to bring the matter still nearer home, part with a yard of broadcloth on precisely the same terms that you can purchase the same article in the mart whence he brought it ? If you were to suggest such a thing, Mr. Clipps would not be slow to assure you that there was a material difference betwixt selling wholesale and selling by retail : that for one yard *he* sold, the “house” would sell a thousand : that they could go on the principle of small profits and

quick returns : but that his returns being exceedingly slow, his profits must be proportionately large. If Mr. Clipp's cannot see the application of this, he must be labouring under mental derangement.

From the general principle, viz., that the rates of interest in country places must necessarily exceed those of the metropolis, let us now enter briefly into detail : and, first, as regards the rates of

Discount on Bills. These will vary in accordance, first, with the character of the bills. A first-rate commercial bill, drawn by a first-rate house, upon a first-rate acceptor, for example, is obviously of a higher character than such a bill as we have described as being drawn by Mr. Bowdler on his friend David Starkey ; and, accordingly, the rate upon the former will be much lower at all times than that upon the latter.

Again, there is always a market for first-class paper : you can always *sell* such bills, or re-discount them, which is nearly the same thing : but for inferior bills the market is always uncertain, and sometimes closed altogether.

The first-class bill, moreover, you can rely upon being met to the day—not so as regards the other. By dealing in the former, therefore, you have at all times the absolute command of your financial position. Cease to discount them, or reduce the number which

you discount, and your reserve of cash instantly begins to enlarge: but cease discounting Mr. Bowdler's paper, and you are not absolutely certain of thereby augmenting your cash reserve at all, inasmuch as his bills are met with singular irregularity. For these reasons, the first-class bill always commands a higher price,—or, what amounts to the same thing, it can always be turned into cash at a lower rate of discount than any other description of bills.

Your rates of discount will vary, secondly, in accordance with the *currency* of bills. You cannot discount a bill at six months' date for the same rate at which you could discount a bill at two months' date. By investing your funds in the former class of bills, it is obvious that you would turn your capital over only *twice* within the year; whereas by investing your funds in bills having an average currency of two months to run, your capital would revolve *six* times within the year.

If, for example, your current rate of discount were 5 per cent. and the usual 5s. per cent. commission, and you regularly invested £20,000 in bills at two months' date, the result would be for the year—

| | |
|--|-------|
| 5 $\frac{1}{2}$ cent. on £20,000..... | £1000 |
| Six commissions on do. 5s. $\frac{1}{2}$ cent. each, | 300 |

£1300

Now, to invest the same amount to equal advantage in six months' bills, your rates

would require to be 6 per cent. interest and $\frac{1}{4}$ commission. For

£20,000 at 6 per cent. = £1200

Two commissions of $\frac{1}{4}$ each = 100

£1300

And this is on the supposition that none of the bills are *retired* or paid through you when due. The probability is, however, that a considerable portion of them may, and if so it is almost superfluous to observe that you would have three bills to retire under the short-date system for every one which you would have to retire under the other.

On Current Accounts overdrawn, the rate of interest charged is determined as much by the nature of the account as by the existing state of the money market. Other things being equal, the interest charged will be at a higher rate upon an account always overdrawn than upon an account the balance of which fluctuates from one side to the other. And again, the interest will be higher upon the balance of a comparatively inactive than upon that of a highly operative account.

The country banker, in fact, does not much regard the *interest* upon current accounts as a source of profit. The value of these accounts in this respect he estimates by the amount of operations upon them, and the consequent *commission* accruing to him from these operations. And this explains the apparent anomaly

of a higher rate of interest being sometimes charged upon bills than upon the balances of overdrawn accounts.

It is different in the case of accounts which have ceased to be operative and assumed the character of dead loans. The commission chargeable upon an account ceases, of course, with the operations upon it: hence, upon dormant accounts, the interest, being the sole revenue derivable from them, must necessarily be charged at a higher rate than upon those which are active.

On certain of your less active accounts, you tell me that you charge by arrangement a commission on the sum that *ought* to have been turned over upon them,—that is to say, upon an account regularly overdrawn £1000, you charge commission on five-times that sum every half year, whether the operations have reached that amount or not. This may be a remunerative charge—but it is an unsound description of business to countenance: and, unless the overdraft is covered by undoubted banking security, an unsafe and perilous description of advance. It is a safe inference that if all the money passing through the hands of a trader in the course of six months does not exceed the advance upon his account in the proportion of five to one, you are lending him by far too much, and that he is trading on your capital,—little to his own advantage, it may be, and still less to yours.

No rate of commission, therefore, justifies the continuance of such advances. They ought to be recalled or reduced, and the money advanced to parties who will make more legitimate use of it, and at the same time pay you as well or better for it.

LETTER XVI.

REVENUE OF A BRANCH—*Continued.*

THE COMMISSION CHARGED BY COUNTRY BANKS THEIR
PRINCIPAL SOURCE OF PROFIT—BANKING PROFITS
LESS THAN THOSE OF OTHER TRADES—LONDON PRIN-
CIPLE OF CONDUCTING A BANK ACCOUNT—SCOTTISH
SYSTEM.

In treating of interest as one of the two main sources of the revenue of a bank, incidental allusion was made to the other great branch of the income of a country bank in England, viz., the COMMISSION usually charged by it on transactions with its customers, in order to explain why the interest upon advances, apparently similar in character, varied sometimes materially in rate. But the subject of commission is large enough to merit more formal consideration.

With very few exceptions, then, the country banks throughout England charge the uniform rate of 5s. per cent. for transacting the banking business of their customers ; and it is not an unusual estimate, that the revenue derived from this source represents the nett profits of the bank—the difference betwixt the rate of interest allowed and that charged to its customers being required to cover the expenses of

the establishment. The estimate will not, of course, hold good in all cases. In some instances more, in others less than the difference of interest will be required to cover these expenses, but as an average, the estimate may be regarded as a fair one, and as showing, consequently, the importance of this branch of the income of a country bank.

There are those, however, who gird at the charge as exorbitant, and who, therefore, take every means, directly and indirectly, to evade it—(little to their own advantage, I may observe, by the way,—but of that more hereafter.) But if the banker's profit is exorbitant, what shall we say of the profits of trade, which range from £5 to £20 per cent.—or from *twenty* to EIGHTY times the rate of banking profit? True, the banker has a greater volume of transactions passing through his hands, and consequently his aggregate profits may be as great as those of some other traders on the amount of capital employed; but that the profits of a bank are the reverse of extravagant, the average rate of dividend paid by joint-stock banks to their proprietors, will testify to the satisfaction of any reasonable person.

But you will be told that the London bankers do not charge commission. Neither, however, do they allow interest on current account balances; and if they do not charge a fixed rate of commission, they expect that you will not quite forget their clerks at Christmas

time.* Therefore it depends entirely upon the nature of a banking account whether it will be more profitable to the holder on the London or on the Country principle. By being charged with commission, but credited with interest, may be quite as advantageous as to escape both.

There is another point of view, however, from which to regard the respective advantages of the London and the Country principle of conducting a banking account. The London principle is, that you shall not only receive no interest upon your account, but that you shall never reduce the balance below a certain sum; and this sum will be regulated, in some measure, by the number and magnitude of the operations upon the account. In opening an account with a London banker, therefore, you in effect permanently sink or invest a certain portion of your capital. You may certainly, at any time, withdraw the money, but if you do, you must close the account; and it is not a slight consideration for any man in business to change his banker. But in opening an account with a country banker, no such investment of a portion of your capital is necessary.

* There are a few exceptions to this rule. Several of the joint-stock banks in London allow interest on balances *above* £200, but the rate allowed is comparatively low, and even its being allowed at all is hampered with restrictions which render it, in many instances, quite nominal. The joint-stock banks, moreover, do not permit the acceptance of Christmas gratuities from the customers of the bank.

Whatever your balance is, it is at your command, and the understanding is, that you may withdraw it at any moment.

Nor, according to the country system, is the customer invariably restricted to drawing *only* the sum standing at his credit. To the London banker "overdrawn account" is practically an unknown term. To be called upon to pay a cheque for £1000, against an account having only £500 at its credit, would, probably, suggest to his mind a happy illustration of the height of impudence. But the country banker, by a pretty long course of experience, has become habituated to this custom—probably as eels are said to get accustomed to being skinned. In the country, therefore, a party might not only retain the command of the entire balance at his bankers, but might feel tolerably secure of being permitted to draw for something more, if his credit were sound, his means good, and the occasion required it.

Now, to any one engaged in business the question is simply this,—will not the absolute command of the balance at his bankers, and something more, enable him, in the ordinary course of things, now and then to take advantage of the market, and, by the use of this money, realise a profit, compared with which the total commission charged upon the account for the twelve months would be a mere bagatelle? They must be singular times indeed, in which such occasions do *not* arise; and he must needs be a dull fellow who lets them slip.

But, again, there is the Scottish system, under which you are charged no commission, but yet are credited with interest on your account. You will be asked, probably, with an air of triumph, to get over *that* if you can?

The readiest, and perhaps the most conclusive answer to this would be, to suggest to the gentleman in waiting for a reply, whoever he may be, the expediency of his at once emigrating to that portion of Her Majesty's dominions, and trying his fortunes where "the extortion" of which he complains is happily unknown.

Or, if this reply smacks too much of petulance and discourtesy for general use, there is another which I take to be quite as conclusive in its way, although less portable.

The Scottish banks, then, as a body, enjoy two things which the English country bankers do not, viz., the unlimited confidence of the public, and the privilege of issuing one pound notes.

It matters not that you enter into an historical statement of how this confidence arose, spread, and became confirmed; it is enough that it exists, and that it has been the cause of throwing into the hands of the Scottish banks the enormous aggregate of five-and-twenty millions of deposits, of which twenty are as permanent and exempt from fluctuation as the principal sum of the national debt itself. As regards the small note issues, it is sufficient here to state, that

they form two-thirds in amount of the whole paper currency of Scotland.

Now, to enable the English Country banks to compete with their Scottish contemporaries in the scale of banking charges, you would have to place them on a similar footing in other respects. Their present limit of issues of £8,000,000, for example, must be extended to £24,000,000, to admit of a proportionate issue of small notes, and their existing aggregate of deposits, whatever that may be, should be raised to something like two hundred millions of pounds sterling.

Let it be further arranged, that one hundred and sixty millions of these shall continue as permanent and free from fluctuation as the twenty millions of the Scottish deposits are—exempt the banks in England from the action or the fear of “runs”—and on these conditions you may safely pledge your honour as a gentleman, that the Country Bankers of England would abandon the charge for commission, and look to their deposits and circulation solely as sources of revenue or profit.

But a change is coming over the Scottish system, as to the principle of charging commission on current accounts. Already the principle has been introduced—very partially, it is true,—but it is the point of the wedge. The truth is, that Sir Robert Peel's Scottish Bank Act of 1846 effected a fundamental change in the principle of issuing notes in

that country. Previous to that enactment, the banks had been regarded as the most competent judges of the amount of notes it was prudent for them to issue, and also of the reserve in specie it was desirable to hold against them. But the act set bounds—and very arbitrary bounds—to both. It declared that, up to a certain point, every bank should issue notes, with or without a reserve of specie, as it thought best; but that every note issued beyond this point or limit must be represented by specie in the coffers of the issuer.

Now, previous to this enactment, it was the interest of each bank to maintain the circulation of its own notes at the highest attainable point which the action of the local exchanges would permit. Of the total circulation required for the monetary wants of Scotland, and of which these exchanges were the ceaseless and unerring corrective, I say it was the policy of each bank to procure as large a share as it could. Its customers, therefore, were encouraged to pay in to their credit the notes of other banks as they collected them, and to make their payments exclusively in the notes of the bank with which they dealt—a process which a charge for commission would obviously have tended very materially to obstruct, and in a great measure to neutralise.

The Act in question, however, has changed all this. A Scottish bank now has no inducement to enlarge its issues a single pound

beyond its fixed limit, however much the circulation generally may fall short of the actual monetary requirements of the country: and hence, probably, the first step towards the English system of charge which I have noticed above.

LETTER XVII.

REVENUE OF A BRANCH—*Continued.*

THE TRANSACTIONS IN COUNTRY BANKING WHICH ARE CHARGED WITH COMMISSION — THE ADVANTAGES DERIVED BY THE CUSTOMERS OF THE BANKS AN EQUIVALENT.

Before we can arrive at a correct decision as to the reasonableness or otherwise of the particular item of bank charge, which we had under discussion in last letter, it will be well to consider briefly upon what description of transactions and on what specific grounds the charge in question is levied. So far we have argued the point as if the charge for commission were peculiar to the English Country banks: but it will be found, on inquiry, that the charge is made to include a variety of transactions upon which all other banks impose a similar tax.

When you intimate to a party seeking to do business with your branch that your terms will be a commission of 5s. per cent. upon the total "outdrawings" upon his account, it is understood between you that these outdrawings may consist or arise out of any or all of the transactions following. For the charge in question, you agree—

1. To grant him a draft or letter of credit on any town in the three kingdoms ;
2. To pay over to him any sum or sums of money lodged to his credit in London, or anywhere else in England ;
3. To protect or retire his acceptances, whether domiciled in London or elsewhere ;
4. To open a credit in London, or, with any of your branches or agents, for him, to be operated upon at his pleasure ;
5. To collect his bills receivable, cheques on other banks, dividend warrants, &c., wherever payable, if not out of England ; and
6. To supply him, on demand, with Bank of England notes, gold, or silver, in exchange for any description of currency or bills which may have been paid to the credit of his account.

These are the transactions which constitute the "outdrawings" upon a banking account, and on the total of which you charge 5s. per cent. at the end of the half year.

And if the nature of the transactions on which the commission is charged be fairly considered, it will be obvious, I think, that no one could act as "his own banker" on equally favourable terms.

1. Let him, for example, resolve to be his own remitter of payments which he may have to make in any part of England : and how far this is likely to be to his advantage in the long run we have already considered in discussing the matter of "Drafts on London."

2. Instead of receiving, through a Country bank, moneys that may be lodged to his credit in London (in the shape of dividends on stock, &c.,) or in other places, let him collect them in person, and place his travelling expenses in so doing against the commission which their collection by a banker would cost; and if the difference is not heavily against him, all we can infer is, that he must be a person of very splendid income.

3. The same observation will apply with regard to the protection of his acceptances. If he must make a special trip to London or elsewhere to pay each of his acceptances as it falls due, the sooner he abandons putting his pen to paper, as the acceptor of a bill, the better for himself—and, possibly, for his creditors as well.

4. By opening a credit for him in London or elsewhere, you enable him to draw for that amount of money, and no more, which he finds he will require when he has completed his purchases. Without this facility, he would require to take with him a much larger sum than he would probably have occasion for; and that sum, also, he carries in his pocket at his own risk, and in a shape much more attractive to the light-fingered of the community than a dry untransferable letter of credit.

5. Or let him essay the collection of his bills receivable, cheques on other banks, dividend warrants, &c., *wheresoever payable*, and if his transactions of this description are not ex-

ceedingly limited in number, he will be on the wing from one year's end to another. To collect a single railway dividend warrant for £10, upon which a banker's charge for collection would be *threepence*, it is no great stretch of fancy to suppose that he may have to travel some hundreds of miles.

6. But the grievance, you will be told, does not so much lie in charging commission upon such transactions as these, but in making a party pay 5s. for withdrawing £100, which he may have placed in your hands only the day before.

You might fairly urge in reply, that any one subjecting himself to this charge does so with his eyes open, and therefore cannot reasonably complain. If he placed it to his account in forgetfulness of an amount which he had to pay the day following, and which he had meant to pay without passing the transaction through his bank account at all, and so evading the commission, I, for one, must confess that I can have no sympathy for him ; on the contrary, I should consider him rightly served.

It will be argued, however, that the lodgment and withdrawal of cash simply are not optional with the holder of the account : that a party must make the operations upon the account reach a certain minimum per annum. This is perfectly true ; but it appears to me, that in seeking to evade this, a party seeks to evade a deliberate bargain. If you have taken

the account upon certain conditions, I apprehend these conditions are not less binding upon your customer than upon yourself, and, therefore, that he has no right to complain if you hold him to the strict letter of the agreement, so long as you fulfil your part of its conditions.

When the minimum in question is attained, it is purely optional with the operator on the account whether he pass 5s. or £5000 through it, over and above. There are many persons, however, who must be allowed to be tolerably shrewd men of business, and who systematically pass *all* their cash transactions through their bankers with an indifference to the commission, which is quite unaccountable to those who are alive to the advantages of being their own bankers, and who, on principle, do not pass a shilling through their bank accounts which they can by possibility avoid.

But what at first sight may seem indifference to the charge, is, probably, the result of sound reasoning and shrewd calculation. For, in the first place, by passing *all* transactions through his bank account, the merchant secures a valuable check upon his own cash-book, the intromissions of his clerks, and his transactions with others. Many a grievous law-suit is avoided by those whose mode of business enables them to call their banker into court, as a disinterested witness to every payment made by them in the course of business. In the second place, by systematically seeking, day by day, the protection of the banker's

safe, in preference to his own, for the safe custody of his floating balance of cash, the man of business insures himself against two grave risks—fire and theft. Let the banker's safe be robbed, or its contents burnt to tinder, and your remedy against him is just as good as if neither catastrophe had happened : but be robbed of your cash, or have it burnt whilst in your own possession, and your remedies in either case are desperate in the extreme. And it will be admitted that it would be an easy matter to lose in this way a sum that would cover the commissions upon your bank account during your life-time. Lastly, even men of the most correct business habits do not invariably register the numbers, dates, and particulars of every note they receive or pay away. It is thought quite sufficient in the matter of notes received to write the name of the party upon them from whom they were received, and on notes paid away either your initials or some mark by which you can identify them again : and so far as enabling you to purge yourself from participation in forgeries or thefts, (the proceeds of which may have innocently passed through your hands,) these precautions are sufficient. But suppose you take or send £100 in notes to pay an account, and they are lost by the way, what avails your private mark upon them ? Doubtless, the mark would be of infinite service in identifying the notes *when found*, but how to find them is precisely the result which your private

mark will not accomplish. Now, if instead of this you had paid the £100 by a cheque upon your bank account, you would have been just £99. 15s. the richer. Nay, even if you had drawn money for the cheque, and taken the money with you to settle the account, and lost the money by the way, you had only to go back to your bankers to have payment of the notes stopped at the Bank of England, (within the next ten minutes, by means of the electric telegraph,) and at all the banks in England, Scotland, and Ireland by the same day's post. By passing *every* transaction, without exception, therefore, through a bank account, the operator upon the account avoids a troublesome but necessary process,—that of *registering* the particulars of every note that passes through his hands,—and a process done with much more system and accuracy by a banker than it can well be done by any one else.

But, after all, it is but a shabby objection, which we have thus been combating. We have been answering the question, why a sum paid in to account to-day is charged with commission although withdrawn in cash to-morrow, and to all liberal-minded people the answers given we hope and believe will be conclusive. Even if the reasons which we have already stated were insufficient, we might fairly urge that the just and liberal way to view the commission charged upon an account is to take the account as a whole. If you select a par-

ticular transaction, and say upon this the charge falls too heavily, you are bound in fairness to point to others, and admit that the charge upon them falls too lightly. Place on one side, then, the commission upon all transactions which you *might* have evaded, if you had chosen, and place on the other the expense which the remaining transactions would have put you to, but for the intervention of your banker, and the probabilities, I take it, are that the balance would be seriously against you.

To those, however, who may still be of a contrary opinion, and who adhere to their resolution of banking on their own account, you and I, and all others, the country bankers of England, can say in conclusion, and with entire candour and sincerity, that we heartily wish them all the success which they are likely to reap in the long-run by so doing.

LETTER XVIII.

EXPENDITURE OF A BRANCH.

INTEREST PAID—THE NATURE OF AN ACCOUNT DETERMINES THE RATE OF INTEREST ALLOWED UPON IT—INTEREST ON DEPOSIT RECEIPTS.

From the question of revenue let us now pass to that of expenditure, which it will be best to consider, perhaps, in detail, under the several heads into which you divide it, viz. :

*Interest Paid,
Salaries,
Rent, Taxes, Rates, and Insurance,
Expenditure on Bank Premises,
Incidents.*

INTEREST PAID.—You make a distinction under this head betwixt interest paid on *current accounts* and on *deposit receipts*, and the distinction is necessary not merely as one of classification but of rate also ; because the rates upon the one description of deposit do not always correspond with those upon the other.

On Current Accounts.—In respect of balances or deposits on current account, you are instructed, I presume, by your head-office

as to the maximum rates to be allowed previously to making up your accounts for the half year, and the discretion given you of reducing the maximum in cases where a lower rate would be a fair allowance.

The maximum in question is always higher than the rate allowed on deposit receipts that may be withdrawn on demand ; because these receipts are not subject to commission on withdrawal.

But it is clear that in allowing this higher rate it is on the supposition that the accounts shall be *operative*, and that the higher rate will be compensated for by the commission upon the outdrawings. If it shall appear, therefore, that amongst your current accounts there are some which have not been current at all, but mere deposits, without an operation upon them for the half year, then obviously upon such balances you cannot consistently allow the maximum rate, but merely your current rate, whatever that may be, for deposit receipts repayable on demand. Other accounts you may find upon which there have been a few trifling operations, but not of sufficient amount to place them in the highest rank in respect of interest, and on which, therefore, you would properly allow an intermediate rate. Supposing, for example, your highest rate to be 3, then 2 per cent. would be a fair rate for dormant balances, and 2½ for balances only slightly operative.

But you wish to be informed if it is not

the fact, that certain country bankers, located in large towns, *allow* the same rate of interest which they charge upon current account balances?

In a certain sense they do ; and their reasons for so doing are not difficult of explanation. In certain of our greater towns, where this principle prevails, the custom is for a party to pay to his credit his receipts of cash, cheques, and bills, not in the order in which his requirements arise, but in the order in which the bills, &c., come into his hands, and the bills so paid to his credit generally constitute by far the greater portion of the lodgments on the account. It, therefore, becomes of great consequence to a party, that by agreeing so to conduct his account, instead of merely providing for his requirements as they arise, he does not subject himself to unnecessary expense. To prevent this, the usual arrangement is, that all his bills are passed to his credit *without reduction*,—that is to say, he is credited in account with the exact amount of the bills, the discount upon them being carried out into the interest column, to be brought to his debit at the end of the half year: and upon the balance at his credit thus created, interest from day to day is carried out at the same rates, and brought to his credit at the end of the half year. The result is obviously this, that he is debited for discount according as the bills are drawn against only.

An example, however, will render the

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matter clearer. Take the case, then, of a party paying a bill at three months for £1000 to his credit, and operating against it as follows:—

| | | Interest. | |
|-------------------------------|--------------------|-----------|-------|
| | | Dr. | Cr. |
| April 30. By Bill due 30 June | £1000 × 61 = | 61000 | |
| 30. To Cash..... | 200 | | |
| | <hr/> | | |
| | Cr. 800 × 32 = | | 25600 |
| June 1. To Cash..... | 400 | | |
| | <hr/> | | |
| | Cr. 400 × 29 = | | 11600 |
| 30. To Cash..... | 400 | 61000 | 37200 |
| | <hr/> | 37200 | |
| Interest..... | 23800 = £3 : 5 : 3 | | |

Now, if instead of having the bill passed to his credit, he had lodged it in your hands as *collateral security* for such sums as he might have occasion to draw against it, and had drawn as above, it is obvious that the result, as to interest, would have been precisely the same. The bill you would have passed to the credit of bills lodged for collection until due, and to the credit of the party when paid, and your account with him would have run thus :

| | | Interest. | |
|-------------------------|--------------------|-----------|-----|
| | | Dr. | Cr. |
| April 30. To Cash | £ 200 × 32 = | 6400 | |
| June 1. To Cash | 400 | | |
| | <hr/> | | |
| | Dr. 600 × 29 = | 17400 | |
| 30. To Cash | 400 | | |
| | <hr/> | | |
| | Dr. 1000 | | |
| „ By Bill due | 1000 | | |
| | <hr/> | | |
| „ Interest | 23800 = £3 : 5 : 3 | | |

By allowing, therefore, the same rate of interest on balances created by passing bills to credit before they are drawn against, as he charges upon the bills themselves, a banker virtually does neither more nor less than charge discount upon such bills from the dates he gives cash or value for them. If he declined to do this, the parties could insure to themselves nearly the same result by simply keeping the bills in their own hands until they required to discount them.

It is true that, by allowing the same rate upon *the balance* of the account as is charged upon the bills passed to its credit, you also allow the same rate upon that portion of the balance which may have been created by the lodgment of cash simply ; but, practically, it rarely happens that this amounts to anything.

It is not unusual, in the case of accounts such as those now under review, to charge only the same rate on any *overdraft* that may arise upon them as is allowed upon balances at their credit ; but this is only in cases where the overdrafts are purely temporary and accidental, and where the general character of the account is that of a creditor or deposit one. And, as I have already stated, it is not to the *interest* upon such accounts, debtor or creditor, that a bank looks for profit—but to the operations upon them, and the consequent commissions.

But the custom of allowing the same rate of interest upon both sides of a running account

is not confined to great towns and great banking accounts. Look nearer home, and you will find the custom in full operation—even at your own branch.

Your principle with respect to overdrawn accounts is to charge interest *on the balance*. Now, if my account is overdrawn to-day £1000, and I reduce it to £500, by a payment in cash, and you charge me 5 per cent. on the remaining balance, it is clear that I am allowed 5 per cent. on the money which I paid in reduction. And so long as an account continues overdrawn, however little, and interest is calculated on the fluctuating balance, it follows that interest is allowed upon all sums paid to the credit of that account at the same rate as is charged upon sums withdrawn.

That this is so will be obvious by a very short and simple example—first, of an account calculated according to your method :—

| | | Dr. | Cr. |
|------|-------------------|---------|--------------------|
| | | Days. | Int. |
| Jan. | 1.—To Cash | £500 | $\times 10 = 5000$ |
| | 11.—By Cash | 300 | |
| | | Dr. 200 | $\times 29 = 5800$ |
| Feb. | 9.—To Cash | 300 | |
| | | Dr. 500 | $\times 10 = 5000$ |
| | 19.—By Cash | 500 | |
| | | | 15800 |

Let us now calculate the interest upon the same account, but upon the lodgments and payments respectively, instead of upon the balance :—

| Dr. | | | Cr. | | |
|---------------------|-----|------------|---------------------|-----|------------|
| Jan. 1. To Cash ... | 500 | Int. 19500 | Jan. 11. By Cash... | 300 | Int. 11700 |
| Feb. 9. To Cash ... | 300 | 8000 | Feb. 19. By Cash... | 500 | |
| | | 800 | | | 800 |
| | | 27500 | | | 11700 |
| | | 11700 | | | |
| To Interest | | 15800 | | | |

The result, as to interest, you will see is the same in both cases : and what is true in this respect of these few entries would be equally true of any number or variety of entries or accounts.

On Deposit Receipts.—In England the deposits in banks consist chiefly of sums allowed to accumulate to the credit of the parties to variable amounts, then to be withdrawn for investment in the funds, or in railway shares, or to be lent out on mortgage, or personal bonds, or some other description of real or personal security. In Scotland, on the other hand, the great bulk of deposits are permanent investments, *as such*. The Scottish depositor prefers keeping his principal intact, and always at command, even if the interest is a little lower, rather than seek other forms of investment for his money. He prefers that his principal shall remain fixed and the interest upon it variable, rather than that the interest should be fixed and the principal variable. Permanence, therefore, is the characteristic of deposits in Scotland—fluctuation in England : hence two points in which the banking system of either country differs. In Scotland the custom of requiring notice of the

repayment of deposits is a rare exception—in England it is the rule. In Scotland, again, the rule is to allow an uniform rate on *all* deposits—in England the rule is that this rate shall vary according to circumstances.

You could not, for example, properly allow the same rate of interest on £1000, which you may have to repay at any moment, as upon a like sum which may not be withdrawn short of a month's notice. Deposits of the former description you must necessarily invest in securities of a first-rate character—at all times convertible into cash at will; and upon such investments the interest that you will receive will be low in proportion. Deposits of the latter description (those subject to notice) you may safely invest in securities of longer date, less superior character, and bearing, consequently, a higher rate of interest.

Upon deposits, again, lodged with you for fixed periods—six or twelve months—you can allow a still higher rate; because, for these you may descend still lower in the scale of investment, and the lower you descend, the higher, of course, will be the rate of interest borne by such investments. At present, for example, first-class bills of short dates, if purchased in London, would yield you an interest of from 2 to 3 per cent.; fair commercial bills, not exceeding four months' date, you might discount to yield you $3\frac{1}{2}$ to $4\frac{1}{2}$ per cent; and for advances on railway shares, with a good margin, for stated periods, you might obtain from 5 to 6 per cent.

LETTER XIX.

EXPENDITURE OF A BRANCH—

Continued.

**SALARIES—OBJECTIONS TO A FIXED SCALE OF SALARIES
—SALARY BY SENIORITY PRINCIPLE—CONSIDERA-
TIONS WHICH SHOULD GUIDE IN THE ADJUSTMENT
OF SALARIES.**

Your plan for disposing finally of the salary question has at least the merit of brevity. "I would attach," you say, "a fixed salary to each branch proportioned to the profits; and I would place the managers at the respective branches in the order of merit." Captivating as this proposition may be at first sight, it nevertheless inherits the usual defect of abstract propositions—that of being wholly impracticable.

A fixed salary to each branch, on the principle proposed, would be a fixed injustice; because the profits of branches fluctuate from year to year, and, in the majority of cases, from causes over which the managers have no control. Would you have the salaries to partake of these fluctuations? If you would, the fixity of your scale is gone; if you would not, then its equity is destroyed.

But there is another objection. You would have the most meritorious officer as the manager of the best-paying branch ; the next in order of merit as manager of the second best, and so on, downwards. But it is the most weakly branches—the branches that have to struggle against competition, and make their way against ignorance, prejudice, and other hostile influences, that require the *best* officers. To send your worst officer to your worst branch is simply to make an end of it. For the most desperate case, your scheme would call in the most incompetent physician.

Mark me, I do not lay it down as a principle that your most incompetent officers should have the charge of your best branches ; and, conversely. What I contend for is, that the business of a branch often sinks into that inert condition that it imperatively requires the presence of an intelligent, vigorous, and active officer to revive it ; and that any scheme which would render this impracticable or unjust is unsound and pernicious.

But follow your scheme out to its legitimate consequences ; and when manager A dies, or retires, then, as a matter of right, manager B takes his place, making room for C, who is replaced by D, and so downwards, until your entire managerial force is re-shuffled, and you start a new game with fresh hands. You may by these means, now and then, by accident, play a safe card ; but you are far more likely, as a rule, to play the deuce, or something like

it, for there are few things more damaging to the permanent interests of a branch than a frequent change of its manager. The trust and confidence which must necessarily be reposed in this officer by his customers are very great, and are not readily or cheerfully transferred to a stranger. A man is as averse to changing his banker as he is to changing his lawyer or his physician. It is no reply to this, to argue that the change in question is not actually a change of one's banker. Practically, it amounts to this; for it is not to "the Directors and Company," but to the manager, personally, that the customer confides his financial matters, just as he confides the little weaknesses of his bowels or liver to his physician, and not to the whole College of Surgeons.

And this is only one objection to the universal "flitting" which your scheme would, every now and then, occasion at your branches. It is in the last degree impolitic to remove a manager from a district with which he is familiar to one to which he is either comparatively or totally a stranger. A knowledge of the parties with whom he has to deal is essential to the proper efficiency of a manager. To allow A and B, therefore, who know their respective localities intimately, to exchange places, would be wantonly to throw away a safeguard against loss and imposition to an extent altogether incalculable.

For these reasons, and for others which I

will give you by and by, I am opposed to regulating the salaries of a bank according to any fixed and arbitrary scale whatever. The services expected and required from the officers and clerks of a bank are not simply mechanical: they are not merely hewers of wood and drawers of water.

Look at those great public establishments where the salary-by-seniority system prevails, and perhaps unavoidably prevails, — where youthful genius is obliged to succumb to aged dulness, and the finest capacities, equally with the meanest, have no more freedom for independent exercise or expansion than the works of their office clock,—and confess that the no-system under which you at present live is, after all, the better of the two; for, few as its prizes are, it still *has* prizes that may be battled for and won by intellect and merit, and, therefore, constantly holds forth to all the inducement to aspire. But the other system acknowledges but one standard of intellectual value—the weight of years. Weighed in such a balance, seniority preponderates as a law; and judgment, thought, and aptitude, if linked with youth, inevitably kick the beam. Promotion thus reduced to a question, not of merit, but of time—a dreary waiting for of mortality amongst “the seniors”—what other results could be reasonably looked for, than the frigid apathy, the cold selfishness, the “insolence of office,” that are the notorious characteristics of the system?

“But why, in the name of justice and common sense,” you break out again, “am I, who have the same duties to perform, and the same responsibilities to bear, to receive less salary, by some fifty per cent., than my predecessor in office? If I was fit to succeed him in office, surely I was equally fit to succeed him in salary? If I was fit—” and so forth.

In the letter in which you announced to me your promotion, you stated, with something of a boast, that you were to succeed one of the oldest officers of the bank, yourself being one of the youngest; and thus, unconsciously perhaps, furnished me with a conclusive rebutter to the plea you now urge; for length of service is, unquestionably, one of those considerations that ought to weigh with a board of directors in the adjustment of salaries. In all probability, your predecessor commenced *his* management at a rate of remuneration as low as you enter upon yours. His steady merit has, doubtless, year by year, secured some acknowledgment of his services in the shape of increased salary; and if you will follow in his footsteps, I do not doubt but that, in due time, your reward will be equivalent to his.

Although the salary question cannot, with any regard to fairness, sound policy, or common sense, be reduced to a scale, however finely graduated, and for the simple reason that the intellectual faculties are not admeasurable by the ordinary standards of length, weight, area, or capacity, — certain *principles* are,

undoubtedly, to be admitted in the equitable adjustment of salaries. I would have it a recognised principle, for example, that, other things being equal, the officer of ten years' standing has a larger claim on the generosity of the board than the officer of yesterday; and, again, other things being equal, that the officer of unquestionable merit,—the worker—the sound head and willing hand, has a claim upon the Directors which thick-headed, shirk-work, blundering dulness has not. And, finally, I would have it a fixed and unalterable LAW, that the lowest salary in any establishment should be such as would enable its recipient to maintain that footing in society to which his office may entitle him. I hold that, as a matter of mere policy, no bank should have a shabby-genteel Manager in the whole range of its employment, for the poverty of the representative is reflected back upon the represented with usury.*

* "Keep down the salaries of your officers," says Mr. Gilbert.—"A more mischievous recommendation can hardly be conceived. Next to having a dishonest Manager, the greatest evil is to have one that is badly paid. If he is known to be poor, his advice will have less weight in the board-room; the Directors individually will treat him with less respect; his wealthy customers will not disclose to him their private affairs; the needy class, when refused discount, will insult him by threatening to complain to the Directors; and his inferior officers will be less prompt in their obedience. But worse than all this, will be the effect produced upon his own mind. He will not be, and he cannot be, so efficient a Manager when badly paid as he would be if he received a liberal remuneration. It is the besetting sin of men of busi-

Boards of Directors all !—cease to estimate the value of an officer by what he will *fetch* in the clerk-market. The value of a good and faithful servant is not appreciable in exact figures. Sterling honesty, sound ability, willing aptitude, and tried fidelity, are not convertible into any known species of currency. You cannot “price” them, as you would a bale of cotton or a piece of calico. Rather give an officer whom you have known and trusted for years a trifle more to stay, than a stranger a trifle less to come. Rely upon it, that by so doing you consult your own interests, for more work will be done, (I speak as a practical man,) and better done, in a given time, by three willing hands than by four unwilling ones ; whilst the same sum that would pay the four badly would handsomely remunerate the three.

To give to *all* in your employment high salaries is not to be expected ; but to give to every officer in your service, directly or indirectly, the promise or the hope of increase, according to his deserving, is merely to adopt a wise and liberal policy that brings its own reward.

ness that they never pay attention to MIND, though among no class are mental phenomena more strikingly exhibited. The amount of his salary is the only tangible means by which a Manager can judge how far his services and his character are appreciated. It is not the money alone, but the feelings, of which the money is an indication, that produces an effect upon the mind.”—*Practical Treatise on Banking*, 5th edition, vol. I., p. 228.

A few well-timed gifts, by way of increase, to the more meritorious of your officers and clerks, distributed with a just discrimination, and in a kindly spirit, will never jeopardize your rate of dividend. In their renewed exertions, quickened by invigorated hopes and hearty gratitude, these rewards will bring you cent. per cent. in mere vulgar profits. Combine such timely acknowledgments of merit with incidental promotions from the ranks to offices of trust and profit, and so keep open the door of advancement to the lowest clerk in your establishment, and you at once raise honest merit to a premium, and sink indolence, apathy, and incapacity to a hopeless discount.

LETTER XX.

EXPENDITURE OF A BRANCH— *Concluded.*

**BANK PREMISES, RENT, ETC.—TENDENCY TO EXTRA-
VAGANCE IN THE INCIDENTAL EXPENSES OF A
BANK, (FUEL AND LIGHT, STATIONERY, TRAVELLING
EXPENSES, ETC.)—SUBSCRIPTIONS AND CHARITIES.**

I now revert to a letter which I received from you some months since, but which I deferred answering at the time, because it had no reference to the subject then in hand. We have now, however, arrived at that stage at which the matter may properly have place. The subject broached by you is that of **BANK PREMISES**, in conjunction with which we may as well consider the kindred head of expenditure, viz., **RENT, RATES, and TAXES.**

Your present office, it would appear, is old, gloomy, inconvenient, plain, and cheap: the office of your competitors in business is new, airy, roomy, grand, and (I presume) dear, although you do not say so. The inevitable conclusion you arrive at is, that your present office ought instantly to be exchanged for a better. But you shall speak for yourself:—

“Now this is not merely my individual opinion. There is not a shareholder in this district, nor a customer either, who does not admit, when I put it to him, that our present premises are a disgrace to the establishment.

Well, the other week a splendid old house, in the best part of the town, was in the market for sale. The accommodation I forget, but it was immense. There was, for one thing, an acre of garden ground attached, with coach-house and stables—in short, the place was fit for a lord. The price was—what do you think? Why, only £1300! It would have been a dead bargain at £2000. And what answer would you imagine our Directors gave to my urgent entreaty that they would not lose a post in closing for the property? You shall have it *verbatim* :—‘Dear Sir, I am instructed by the Directors to acquaint you, that there being still thirteen years unexpired of the lease of their present premises at Huggleton, they have no immediate intention of changing them for others.’ As if we could not have let the old shop for the unexpired term of the lease, or as if it was of any great consequence whether we did or not! However, I wash my hands of the business. If the Directors wont keep their connexion here together, I cannot help it. If they are resolved to play into the hands of our rivals, of course they may—it is their prerogative; and when half their customers here have gone over to the other bank, perhaps they will

begin to open their eyes to the irreparable mistake they have committed."

I think your Directors took a wise and proper view of the matter, rightly judging that the premises of your argument were even more unsound than the premises of which you complain. And, in taking this view, they did you a personal service ; for, if they had taken this very splendid house, you would either have furnished it entire, or left half the rooms empty: in the one case, you would have involved yourself in a ruinous outlay ; in the other, one half the house would have been a continual mockery of your poverty.

Thus much as immediately concerns yourself. As concerns the expenses of your branch, you would have been saddled with a double rent, and double rates and taxes, for a series of years,—for you do not appear sanguine as to letting the "old shop." Instead of having one old house to keep in repair, you would have had two,—and one of them, I suspect, a rather serious affair, if I am to abide by the idea which you have given me of its magnitude. Then there would have been the converting the dining-room into an office, and another room into something else. Partition walls would have been knocked down—windows built up—and new doors opened out. Accompanying all this, there would have been a general bolting and barring—a dense and steady play of saws and hammers for weeks together, and dust without end. And you

cannot kick up a dust of this nature without coming down with dust of a very different description, and that handsomely, as a reference to your "Bank Premises Account" will testify.

How far all these permanent additions to the annual expenditure of your branch would have disposed your Directors to reconsider their "iniquitous" decision as to your salary—unless with a view to its reduction—I leave you to determine at your leisure.

Nor do I participate in your fears that the non-acceptance of the offer of — house, dead-bargain as it may have been, will have the effect of breaking up your connexion at Huggleton. It is not by doing business in splendid suites of offices that great banking fortunes have been realised. The constitution of a bank, its agencies, its charges of business, the liberality, or otherwise, of the terms on which it takes accounts, the amount and position of its capital and resources, and, perhaps, above all, the affability, or the contrary, of its local Managers—these are the considerations which attract or repel the customers of a bank. Let these be attractive, and take my word for it, your customers will care little whether they approach your counter through a plain street door, or from beneath a Grecian portico. A certain air of sobriety is what should pervade a banking establishment throughout its staff, machinery, and movements. Flash, and glitter, and ostentation, are the natural properties

of your Colonial Emporiums, Cigar Divans, and Tailoring Marts.

There now remain for remark only those items of expenditure which are usually classed under the general heading of INCIDENTS, consisting of Fuel and Light, Stationery, Postages, Travelling Expenses, Charities, &c.

Now, whether it is that by constant dealing with large sums, bankers' clerks acquire a contempt for small ones, it is certain that their notions of expenditure on account of the bank are not generally governed by principles of extreme economy. They have undeniably a tendency to supply the branch with the best of everything, and in great abundance. In winter time, in respect of coals, there is extreme difficulty in setting prudent bounds to their consumption. I marvel sometimes why there are not as many branches burnt down in England as there used to be huts in China, when the burning a hut was the received method of roasting pig in that country. And our banking youth are whimsical, too. The fashion in respect of steel pens, for example, is of a highly fluctuating character, and steadily changes with each fresh issue from the manufactories.

I have in my mind's eye a young man in a certain banking establishment, Dennis —, whose well-known mania for pens has acquired for him, amongst his fellow-officers, various *soubriquets*—the last of which came out with

the announcement of Mr. Thackeray's admirable work, and he is now only known as Pen Dennis. It is estimated that Dennis uses, in fair work, two steel pens per diem ; but that, in finding two to suit him, he throws away daily at least other two. This is an annual consumption of something like 1200 steel pens for one young gentleman.

But Dennis has a sub-consumption of quills also. The quill pen he uses for red-ink purposes ; and I am informed that the consumption of quills bears an extraordinary disproportion to the amount of work done, in consequence chiefly of Dennis being curious in penknives.

In justice, however, to this young gentleman, it has to be stated that, in addition to his bank duties, and concurrently with them, he carries on, surreptitiously, a very extensive correspondence with his relatives and friends, which will in some measure explain his more than ordinary consumption of pens. True, the paper used for this purpose, and the sealing-wax, and, in some instances, it is to be apprehended, even the postage stamps, are the property of the bank ; but then, as Dennis observes, what Board of Directors, calling themselves gentlemen, would be so shabby as condescend to notice such trifles, or chronicle such very small beer ?

Dennis has what is commonly called a "neat turn." His tendency to blotches is at least not greater than his aversion to them ; but the

number of forms destroyed by him before he completes one entirely to his liking, is serious. True, they are not quite thrown away; the spoiled forms are used in "trying" his pens, and before they are quite cast aside, contain as many of his autographs (of which he is rather vain) as would serve to accredit his signature to all the branches and agencies of the establishment; than which, by the way, Dennis has no higher ambition.

It seldom occurs that Dennis travels in the service of the bank, but when this happens, he does so "like a gentleman,"—to use his own expression. His salary being only a little short of £100 a year, he travels first-class by railway, or inside by coach; pays the coachman munificently; takes up his quarters in the leading hotel during his sojourn at a branch; has wine with dinner every day: and remunerates the servants on a scale of liberality which only a gentleman of his means could afford.

I send you this portrait, not so much on account of its being a tolerable likeness of the individual, but because Dennis is the type of a pretty numerous class. And if either of your assistants at Huggleton find the cap fit him, I trust he will have the candour to confess it, and mend.

It is my firm conviction, however, that the waste of which I complain arises almost entirely from mere thoughtlessness, and not from laxity of principle. The value of the thing

wasted is of itself, and at the moment, so minute as scarcely to excite a thought. "A bit of lead pencil, half a sheet of paper, the stump of a quill,—why, what are they, after all, that this Mr. Bullion should make such a noise about them? Very likely he was just as bad himself when he was a clerk." It is highly probable, indeed, young gentleman, that he was,—but not greatly to the purpose; moreover, he sees his error, which he fears you do not. Therefore, let us reason together.

On the supposition, then, that your unnecessary consumption of fuel and light, and stationery, and unnecessary outlay of all other kinds, did not exceed the fifteenth part of a farthing a minute, or one penny an hour,—and I should be sorry to supply Mr. Dennis with ways and means for double the money,—still, you must recollect there are eight working hours a day, and there are 300 good working days in the year, and there are sixty of you in all: and the result, you will find, is just £600 a year. Possibly the matter never occurred to you in this light before?

Well, then, what is the practical result, as far as the officers themselves are concerned? Just that amount withdrawn from the fund which might otherwise be applicable to raising their salaries. So that, substantially, the clerk who indulges in needless waste, indulges it at his own ultimate expense, or that of his fellow clerks.

Let me not be misunderstood. You will tell me, perhaps, that I am becoming *penurious*; but what I complain of is foolish and extravagant *waste*—not necessary consumption. If I would not have the office ink thrown down the kennel, nor used as a dye for *effete* office coats, neither would I measure it out by the gill. I would not stint the office to a fixed supply of sealing-wax; but, at the same time, I would interdict the youth who seals the letters from indulging in his propensity to take impressions of the bank seal in discs of wax sufficient to take off the Great Seal itself. I protest against a sheet of paper being used where the twentieth part of it would suffice: but, at the same time, I would neither reduce the clerks to the use of yellow soap, in preference to Windsor, nor compel them to contribute *pro rata* to the washing of the office towel. I believe there is a mean easily to be found betwixt mere parsimony on the one hand, which defeats itself, and thoughtless waste on the other. I also believe that it requires no Herculean effort of the will on the part of any rightly-disposed person, to deal with the property of others as fairly and economically as if it were his own.

A word or two, in conclusion, as regards "Subscriptions and Charities." To the best of my recollection, you were very indignant, some twelve months ago, at a refusal on the

part of your Directors to give a subscription to Huggleton races ; and took that occasion to "let fly" at them for their stinginess in the matter of charities generally. "Whatever other sentiments may be found there," was your conclusion, "it is clear that 'the charities' have no seat at our board."

Now, touching your races, I am not aware whether the Huggleton St. Leger holds equal rank in sporting circles with the Doncaster event of that name ; but even if it did, it would not be a matter to which *the bank*, in its corporate capacity, could with propriety subscribe ; because there is no doubt that amongst so mixed and numerous a proprietary as that of a joint-stock bank, many will be found who entertain conscientious and deeply-rooted objections to horse-racing altogether. It matters not whether horse-racing is morally good, bad, or indifferent ; it is enough that objections against it exist amongst your shareholders, to render improper any application of the funds of the bank to its support.

The same, or a similar objection, stands in the way of the Directors contributing, on behalf of the bank, to any charity or other object respecting the utility of which your proprietors may be divided in opinion, on either religious or political grounds. In directing their course, they are bound to pay respect equally to the prejudices of

Churchman and Dissenter, Tory and Radical, Whig and Chartist.

But as regards dispensaries, hospitals, asylums, and all other benevolent institutions, to which all may contribute on the broad basis of common charity, I would have your Directors as liberal as may be consistent with the comparative means of the establishment. "It galls me to the quick," you write, "to see our rivals figuring annually as subscribers of £5 to our dispensary, whilst *we* contribute a shabby *three guineas* ! Do our lords and masters imagine that the £1. 17s. is a clear gain to the establishment ? If they do, I'll tell them what they gain besides, and that is, an incalculable sum of ill-will and obloquy—ay, even among our own connexions."

But the obloquy and ill-will are misplaced ; and your connexions, including yourself, must be an unreasonable set of persons to entertain any such feelings on the subject. Your rivals, recollect, *have no branches* : their sole and head office is at Huggleton. True, you have often assured me that they do little or no business, and marvel how they pay their expenses ; but this is a point on which I have observed that Branch Managers are uniformly subject to the strangest hallucinations. You must excuse me, therefore, if I attach no weight to it.

Now, on the other hand, there are twenty branches attached to your head office. If each contributes to its local dispensary in the

same ratio as Huggleton, the total contribution by *the bank* would, of course, be £60 a-year ; and *this*, properly, is the sum which you ought to set against the contribution by your rivals, if you would draw a just inference as to the comparative liberality of the two establishments.

LETTER XXI.

ROUTINE DUTIES.

ATTENDANCE DURING BUSINESS HOURS INDISPENSABLE
—THE PRIVATE CONDUCT OF A MANAGER IN CERTAIN RESPECTS OPEN TO THE SURVEILLANCE OF HIS DIRECTORS—INTERCOURSE WITH OTHER BANKS.

In one of your letters you complain of what you conceive to be the unnecessary stringency of your regulations on the score of ATTENDANCE—the effect of which, you add, is to tie you to your counter from day to day, without respite, from one year's end to another, except when formal leave of absence is obtained.

“Surely,” you observe, “an hour's absence in the middle of the day, now and then, (particularly when my accountant knows as much of the business as I do myself,) or even a day or a couple of days' absence might be permitted without detriment to the business, and without the formal sanction of the board? It is not often that we have notice that we may require such short “outs,” and it is downright slavery (in my opinion) to be tied by the leg as *we* are in this respect.”

The regulation of which you complain is a

penalty—if penalty it may be called—which you pay to your profession, and is by no means peculiar to the regulations of your establishment. To be absent from duty is relatively as grave an offence in the articles of banking as in the articles of war ; and not without substantial reasons.

In banking more than, perhaps, in any other trade the customer prefers in all cases to deal with the *principal*. However well qualified your juniors may be for their respective duties, they are still juniors, and will not be accepted as substitutes for the Manager. If the first necessity of banking is that your office door be open during the usual hours of business, the second is that you should be inside of it. If your clients find that there is an uncertainty in this respect, and that transactions of vital moment to their credit might, in consequence, have to be delayed a post, they will be apt to speculate upon the propriety of transferring their accounts elsewhere. A medical man who would leave his patients every now and then to the care of his surgery assistant would soon experience a sensible falling off in the demands upon his skill.

You will remind me that you do not wish to be habitually, or even frequently, absent—only “now and then.” But unless you had the gift of second sight, how are you to time even an occasional absence so that it shall not be a cause of inconvenience ? You cannot point to five consecutive minutes in the twelve

months and say with certainty that during these your presence may not be required on urgent business.

Moreover, in leaving your counter during the hours of business, you necessarily leave the cash in the charge of your accountant, and that without first balancing to see that so far it is correct. If, then, on balancing at the close of the day's transactions you find an error in the cash, on whom is the blame to rest? You will not be over-apt to lay it upon yourself, and yet the presumption is as strong that the error lay with you as with him. And you will never make good a deficiency arising under these circumstances without a lurking suspicion that you have your accountant to blame for it—a suspicion that cannot be very pleasing to yourself, and must be very painful to him. Is the pleasure of an "out" equal to the pain that may thus be unjustly inflicted upon another? Is it just or reasonable to place your accountant in such a position, unless under a real and unforeseen emergency?

You should bear in mind, also, that the Directors look to you as being, by virtue of your office, an infallible evidence of any transaction occurring at your branch that may at any future time involve a question of law. If the evidence required be of a general kind, which it frequently is, what weight will attach to it, if your leading admission is that your attendance to your duties has been intermittent? Such an admission would be damaging

to your testimony, even on direct and specific points.

For the reasons which I have stated, were there no others, a close attendance to your duties during the hours of business every day, becomes, as far as I can see, an unavoidable necessity: but that it amounts to the hardship which you describe is not so evident. "There is not," you assure me, "a tradesman or artizan in all Huggleton, however mean his condition,—not a journeyman shoemaker nor a draper's apprentice,—who has not more liberty in this respect than we have." Now, if I remember rightly, there is an inscription either in your office window or over your office door, to this effect,—"*Open from 10 till 3;*" the interpretation of which is, that your daily labour occupies five hours out of every four-and-twenty—but say six. Now, what would express the periods of labour respectively assigned to those whose happy lots you sigh for? In no case less than *twelve* hours a day. They work six months, therefore, out of the twelve,—you only three. Rightly considered, your life, as compared with theirs, is a perpetual half holiday; and because you cannot now and then put two of these together, to make a whole one, you rail at your destiny, somewhat as a child might blubber for the moon. If your labour is continuous in one respect beyond that of most other callings, so also is it shorter in its duration: and the one fairly counterbalances the other.

Another grievance of which you complain with bitterness is the espionage which your Directors maintain, by one means or another, over your PRIVATE CONDUCT and movements. You denounce this as the most odious feature in the administration of the establishment,—not that you fear the closest watching, you observe, but that it is gall and wormwood to be suspected.

Not necessarily *suspected*, however. When, for example, a stranger to you, however respectable in exterior, presents for payment a letter of credit in his favour, and you require from him a reference as to his identity, you do not necessarily suspect him to be a swindler: you make the requisition simply as a matter of business.

Or when the inspector of the bank comes round and counts your cash, he does not necessarily suspect that he will find in it an appalling deficiency: he goes over and checks it purely as a matter of routine.

Once again, when a customer lays down a sum of money on your counter, and tells you it amounts to so much, do you give him the right to suspect that you doubt his integrity, by counting it over before you pass the money to his credit?

To be watched, then, is not necessarily to be suspected; and to watch is no more, I apprehend, than to keep one's eyes and ears open. Would you have your Directors shut both, or your inspector make his rounds blindfolded?

There are limits sufficiently defined within which, it is well understood, even the watchful eye of your inspector is not to penetrate ; but beyond these, your conduct is fairly open to criticism, and, if need be, to rebuke and punishment.

With your private convictions in religious or political matters, you will have no interference—provided you keep them to yourself; but it is one thing to entertain an opinion, and another thing to seek its propagation : and when a Bank Manager becomes either a political demagogue, or a ranting zealot, it is reasonable that his Directors should tell him that these vocations and his own are incompatible with each other. Banking, in the abstract, has no connexion with religion or politics ; and, by consequence, your customers are made up of all manner of beliefs, sects, and parties. But take a side with any section, be it great or small—identify yourself prominently with its views and movements, and set all Huggleton by the ears—and defections from the ranks of your customers will assuredly follow in a greater or less degree, according to circumstances.

With a Manager's tastes, habits, and pursuits, so long as they do not interfere with the efficient discharge of his duties, his Directors have no concern, and take none ; but when he oversteps the limits of prudence or propriety, they are bound to interfere. If his style of living, for example, becomes notoriously

extravagant, and too great for his means, the Directors are bound, for their own protection and that of his sureties, to call him to account. He cannot live in excess of his income without one of two results happening, sooner or later: either he will meet the growing deficit in his finances by false entries in the books, or fraudulent dealings with the cash, and thus prejudice his sureties; or, abusing his position as Manager of the branch, he will run into debt with its customers, and, when the reckoning comes, bring gratuitous odium upon the establishment.

If, again, a Manager shall so far forget his position and himself as to yield to the vice of intoxication, even occasionally—to habitual gambling—to open profaneness—or to other vices which shall be nameless,—if he even make friends or intimates of those who have given themselves over to such habits—his Directors have a right, and it is their duty, to insist upon amendment, or to displace him. Tainted with such habits, a Manager will never secure that confidence, nor inspire that respect which is essential to the right fulfilment of his duties.

And there are faults of temper and of manner which come fairly within the scope of remark and reproof. A proneness to incivility, arrogance, or braggadocio, for example, if you have it, you will do well to curb, and altogether eradicate from your disposition. And whilst you thus study to avoid ruffling the tempers

of others, guard well your own ; for in the course of your experience you will have to bear and forbear largely. When you are charged to your teeth by the respectable Mrs. Jones, for example, with having basely mulcted her of fourpence on "as good a sovereign as ever a one in your shabby bank ;" or when you are menaced by a commercial "gentleman" with the disruption of your entire establishment because you wont draw on London for him on his own terms, it is not incumbent upon you to quarrel outright with Mrs. Jones, nor in a violent heat to show your male assailant the door. In the very whirlwind of your passion you must "beget a calmness ;" and if, when sorely pressed, the thought *should* cross your mind of braining some one with the 100-sovereign weight, banish it as by no means a sovereign remedy for insolence and mendacity.

As regards your intercourse with rival establishments, I should have considered it superfluous to suggest that it be marked by a liberal courtesy, but for a certain letter in the *Hug-leton Express*, bearing your initials, and headed "Joint-Stock v. Private Banking." Now, I do not call in question any of the facts which you allege in favour of one system and against the other, although it strikes me that your selection is rather one-sided : but the spirit that runs through the article, of self-laudation on the one hand, and unneighbourly

detraction on the other, is creditable neither to your good sense nor your good nature.

Granted that the system of Joint-stock Banking is all that you pronounce it to be—nevertheless, I had rather that the encomium were passed by an indifferent and disinterested party; and I think the public generally will be of my opinion. Fine words butter no parsnips; consequently your sounding periods do not, to my mind, redeem your article from the reproach of the puff direct.

Deliver it over to a bill-sticker, to be done into the style and language peculiar to posters, and he would throw it off in some such form as this:—

“Immense attraction to Depositors! Unlimited responsibility of Proprietors!! Paid-up capital—a quarter of a million sterling!!!

“The branch in Huggleton of the ——— Bank (Charles Coigne, Manager,) continues to receive deposits, discount bills, and grant letters of credit on terms extremely favourable to the customer.

“An early inspection of its scale of charges, and of the list of its immense and respectable proprietary, is invited.

“N.B. No connexion with the concern opposite—the private bank of *Hoaks and Co.*”

I do not doubt that you wrote with the very best intentions, and that you will consider my treatment of your maiden essay as brutal and gratuitous in the extreme; but such things do positive harm, and ought to be put down.

Do you take quack medicine because the label assures you solemnly that it will instan-

taneously heal the most incurable diseases—all other cures being counterfeits and delusions? When a man begins to brag of his means and resources, do you not begin to suspect that both are limited in the extreme—probably desperate? Do you not instinctively avoid a shop, the proprietor of which indicates in capitals and prodigious marks of admiration, that his arrangements enable him to sell everything off at 30 per cent. below any other house in the trade?

On the same principle, is there not a chance that the public may suspect that there is something rotten in a system that is so vehemently extolled by its own members? I have a strong conviction that if the system is sound, it will prevail; but that its prevalence will not be hastened, but may be indefinitely retarded, by injudicious praise.

I had far rather have seen you extending the olive-branch of friendship and brotherhood to your competitors. The world is wide enough for us all,—our largest interests we hold in common. Why should we not fraternise, and strive together for the common weal? There are prejudices to overcome, schemes to baffle, fallacies to refute, enactments to overthrow, that require the combined strength of the banking interests to accomplish. Disunion has been our bane from the beginning, and threatens to be our curse to the end. Our weakness has been the enemy's strength. Within the compass of five-and-twenty years,

a

more legislative folly has been perpetrated in respect of currency and banking than upon any other subject whatsoever.

What mattered it, that from this point or that came the protests of practical men, filled with astonishment and apprehension at that masterpiece of legislative mischief—the Act of 1844? As an interest we remained inert and impassive, divided and powerless, and triumphant majorities trampled our protests under foot. And so it will be again, until the great banking interests, setting aside rivalry and division, at least for the nonce, shall combine for a common purpose. Divided—there are none so poor as do us reverence: united—we are a match for the strongest ministry that ever held sway in England.

It would be an easy matter to extend this section of the subject, but it is enough, perhaps, to have shown generally that there *are* points in the private conduct of their officers which are fairly open to the surveillance and animadversion of the Directors of a bank, and, therefore, that the “gall and wormwood” under which you were suffering a few pages back are entirely gratuitous. If I might be permitted to borrow a phrase from another service, I would observe, in conclusion, that what your Directors require at your hands, and are fairly entitled to demand, is simply this,—that at all times, in all places, and under all circumstances, you demean yourself as becomes “an officer and a gentleman.”

LETTER XXII.

ROUTINE DUTIES—*Concluded.*

CORRESPONDENCE WITH THE HEAD-OFFICE, AS RESPECTS
STYLE, ETC.—OF INSTRUCTIONS AND ORDERS BY
CIRCULAR.

A Branch Manager will strive to maintain a good understanding with his Directors and Chief Manager, if he has any regard for his own comfort, or has an eye to advancement. No body of Directors will pointedly study the comfort or advancement of one who has wilfully incurred their displeasure or courted their dislike, whatever abilities he may possess.

By your letters, mainly, will this sort of understanding, or the contrary, be established, and your character and abilities judged, because your letters are nearly the only medium which brings you into direct communication with the board. You will do well, therefore, at all times to weigh both the manner and the matter of them, particularly of those which are meant for the eyes of the Directors.

As regards the manner, a respectful firmness will better command attention than either a cringing humility or a saucy arrogance of tone ; and, indeed, the less of tone there is of any kind in business matters the better. State your opinions freely, but be careful to exclude all argument from your letters ; for rely upon it your Directors will have an idea that they can arrive at a correct conclusion upon any given data without your showing them the way to it. Eschew the lighter graces of composition. Metaphor, simile, or antithesis are well enough in their proper places ; but when found in a business letter, ludicrously adorning a plain statement of facts, are simply ridiculous. The young and ardent, it is true, think differently ; but in seeking by grandeur of style to write themselves up men, they uniformly commit the mistake of Dogberry, and write themselves down—something else.

I throw out these hints for your consideration chiefly in consequence of a certain letter of yours, in which there occur the following passages :—

“I protest, Sir, I have no patience with these men,”—meaning your Directors—
“There is great poverty in this place at present. I wrote up to head-quarters, using all the eloquence I was master of, to induce the board to come down with a handsome subscription to the fund, adding, as I thought, and still think, with perfect propriety, *Bis dat qui cito dat*. I had occasion in the same

letter to recommend that a fellow, *Brown* by name, who had figured in our dishonoured-bill list for a couple of months, and who had treated the half dozen letters I had sent him with silent and uniform contempt, should be at once handed over to the tender mercies of our solicitors, harmlessly expressing a hope that they would *do him Brown*. Well, Sir, the subscription was given (more than I petitioned for) and Mr. Brown was dealt with precisely as I had suggested ; but how do you think *I* fared ? You wont believe me, perhaps, but it is the fact, notwithstanding, that, instead of being commended for a seasonable display of good feeling and proper vigilance, I was insultingly told, in reply, to confine myself to the English language in future in my correspondence with the head-office ; and, at the same time, that it was not usual to introduce jests in matters of business !”

You were snubbed for your Latinity, not, I apprehend, for the rather uncharitable reason you more than suggest, and which I will not quote, but because in pure matters of business such quotations are out of place. There is no visible relation betwixt currency and the classics—betwixt journal entries and hexameters. A Greek quantity is not naturally suggestive of a sum total. In matters so peculiarly British as pounds, shillings, and pence, the British language is indubitably the best medium of communication.

As respects your “joke,” it was, in the

first place, execrable in itself, and, therefore, merited castigation. In the second place, the use of it smacked of a degree of familiarity and license which could hardly be supposed to exist betwixt the board and so young an officer as yourself. And lastly, a Board of Directors is naturally a grave and deliberative body. It is not addicted to *facetiae*. It is neither witty in itself nor (wittingly) the cause that wit is in other men. Its business is with realities—many of them stern enough—none of them so trivial as to be dismissed with a jest. To fancy the bank parlour “in a roar” requires a painful effort of the imagination.

On the strength of a reputation for wit, what mortal man ever got a bill discounted, obtained an unlimited advance, a seat at the board, or the management of a bank? What witticism ever in this world sent corn up or cotton down, enhanced the price of Consols or lowered the rates of discount? The wickedest pun would fail to relax the countenance of our Venerable Lady of Threadneedle Street; and you will confess that it must be a tremendous joke indeed that would turn the exchanges.

From the reply to the particular letter in question, your indignation boils over upon the subject of correspondence generally. It would appear that, no matter at what length you may address head-quarters, you rarely receive in reply above a few stiff lines. But if these are sufficient for your guidance, what need for

more? Why write a dozen lines where one will suffice? When you complain of the "eyes right" style of your secretary, you should make some allowance for the work he has to do. If yours were the only letter he had to answer by the same post, he might have time to indulge in the circumlocution which you appear to expect at his hands; but even if he had the time, it is not desirable that he should have the inclination.

"Forward a list of ——— per return," is a sentence of great and imperative brevity, I admit: but would it please you better were it prefaced by some such exordium as this: "If you can make it perfectly consistent with your convenience, and that of your accountant, Mr. ———, (to whom be pleased to communicate our wishes,) I shall feel greatly obliged, and it will convenience us very much, if you will forward a list, &c."

The brevity observed by all present establishments in their correspondence with their branches, indeed, instead of being a cause of offence, should rather be an object of emulation. Rely upon it your behests are more likely to command a hearing amongst a crowd of others, if expressed in a brief and business-like manner, than if clothed in the most copious rhetoric. The Directors have too many actual figures to deal with greatly to respect or cherish mere figures of speech. I put it to your own sense of the probabilities of things, what chance a letter, filling, we shall

say, three closely-written pages of bank post, has of being *read* even, when you consider the limited time that Boards of Directors generally sit, and the mass of business they must transact at each sitting? And what is the consequence? Simply that such a letter must be *abstracted*. The officer whose function it is to operate upon the verbosity of Managers, mentally applies the knife, and cuts three fluent pages down to as many curt lines. He is compelled to do that, in fact, which the writer ought to have done, and would, no doubt, have better done himself.

On the other hand, however, there may be an excess of brevity. In aiming at extreme condensation, which some do, there is a risk that facts of material consequence to the matter in hand may be put aside altogether; and it is not to the credit of a Manager, in any case, to have a matter referred back to him "for further particulars." It is like being condemned to write a bad copy over again. The rule is, to convey the greatest possible amount of meaning and information in the fewest possible words.

Your next attack is upon those orders of the board which are usually transmitted to the branches in the form of CIRCULARS from the head-office, and by which you complain that, individually, you feel yourself continually aggrieved and insulted. It does, at first sight, appear hard that *you* should receive a

circular, because the neglect or blundering of some fellow Manager has rendered the circular necessary. But, on the same principle, you might quarrel with our legislators for enactments against rioting and sedition. A circular, cautioning you against the breach of some regulation or another, need no more be a personal affront to you than an act for the relief of insolvent debtors.

But you must beware, at the same time, of treating *every* circular sent you as a matter for the especial edification of *somebody else* ; nor, because you don't clearly see the drift of it, must you conclude that therefore it may be set aside and neglected. You may safely lay it down as an axiom, that the parent establishment will not issue a single order that is superfluous. There is no man or Manager living, it appears to me, who, in a sound state of mind, would order even the shortest circular to be written twenty times over purely for his diversion. Bearing this in mind, believe me, you will best study your own interest and comfort by a prompt and cheerful compliance with the occasional orders sent you from headquarters. Compliance releases you at once from all blame or risk ; disobedience exposes you to both. A bank, as you well know, is a mere machine in its general movement ; hence the absolute necessity for *uniformity of routine* throughout the establishment, and of circulars now and then to enforce it. You can fancy the inextricable complication of

threads that would follow were any individual bobbin in a spinning machine to take to spinning on its own account and after its own fashion? Pardon the comparison; but apply it, and even circulars, the cause of your particular aversion, will rank as little worse than sundry other necessary evils.

LETTER XXIII.

RESPONSIBILITIES OF MANAGERS.

INSTANCES IN WHICH A MANAGER IS RESPONSIBLE IN
CASE OF LOSS—FREEDOM OF ACTION NOT NECES-
SARILY FETTERED BY SUCH RESPONSIBILITY —
CONCLUSION.

Of all sore subjects, the sorest to a Branch Manager is that of PERSONAL RESPONSIBILITY: it is the bug-bear of his official life. In all banks he is held personally liable for losses in certain cases, and bound to make them good.

There is this, however, to be said at starting: that no Manager can subject himself to loss otherwise than by a direct breach of his instructions, which clearly define those transactions which he is to guard against, at his peril. With most people, this simple fact will always be conclusive of the whole matter. If a Manager, they will argue, is cognizant before-hand of any risk which he chooses to incur, and he does incur it, and a loss is the consequence, there would not appear to be any better reason for exempting him from this loss than for exempting a breaker of the law from the penalty attached to his offence.

But you take exception to the cases in which a Manager is usually held responsible. "If we let a customer overdraw his account without authority," you write, "we are responsible. If we discount a bill beyond a certain amount without authority, we are responsible. If we cause an over-issue of the notes of the bank beyond the Parliamentary limit, we pay the penalty. If we cash a cheque upon another bank or branch, and it is dishonoured and becomes a loss, the loss is ours. If we discount a forged bill, or cash a forged cheque, or any other banking document, we make good the loss. And, to complete and round the sum of responsibility, it is expressly declared in the preamble to our Instructions, (which number nearly 200 clauses in all,) that any loss which may arise by reason of their neglect or infringement, shall be sustained and made good by the officer or officers through whose neglect or wilful disobedience such loss arises."

You are of opinion that "the force of folly could no further go," than thus to tie a Manager head to heel with the cords of responsibility," and contend that he should be allowed a discretionary power.

But to give a Manager the discretion to follow certain rules or to set them aside, would virtually be to annul the rules themselves. A discretion to thieves, burglars, and fire-raisers, (I mean nothing personal by the comparison,) would be fatal, I apprehend, to

the operation of the laws against theft, burglary, and arson. Either the rules are bad or they are good. If bad, let them be amended ; but if sound, let them be strictly observed. There is only one other course—the abolition of all rule, and “everybody for himself.” You will tell me that you do not seek for an absolute discretion, and would be well content with a limited one only. You would have the discretion given you of making an advance on open account in any case to the amount of at least £100, without consulting the board.

There might not be any very great harm in this, perhaps, under favourable circumstances, and in good hands. The discretion would enable you to make yourself a very great man indeed amongst the small fry of your customers—a very Triton amongst the minnows—but this is an ambition which no doubt you will indignantly disclaim.

But if your motive be, as no doubt it is, to improve the connexions, the profits, and the popularity of your branch, without reference to your personal importance, the discretion you sigh for must not be limited to £100 ; because many of your customers are just as good for £10,000 as others are for £10. Such a limit, therefore, whilst it would enable you to give instant accommodation to the inferior order of your connexions, would leave you powerless to meet the larger requirements of the wealthy and influential amongst them.

To render a latitude or discretion to make advances equitable in its operation, you must adapt the figure to the customer, and not the customer to the figure. You cannot reduce your customers to one standard measure of advance any more than you can reduce their persons to an uniform standard of height or rotundity. But such a discretion as this—a discretion to make advances proportioned to the means and deserving of your customers—would be unlimited; and for any body of Directors to delegate such a power would virtually be to abdicate their highest function—the financial government of the bank. In a single month, it is not too much to say, that the effects of such an arrangement, operating at twenty different points at once, and at each with indefinite powers of expansion, might be to bring even a powerful bank into difficulties.

That you should be held responsible if you cause an over-issue of the notes of the bank, is just as reasonable as that you should be held responsible were you to set fire to the bank premises with malice aforethought; because it is hardly possible that you can cause an over-issue by inadvertence.

When you give value for a cheque drawn upon another bank or branch, you do so in total ignorance of the state of the account drawn upon. The risk, therefore, in this case is self-taken, and the loss, if any, ought to be self-borne; because, if you choose, you may

take such cheques for *collection* only, where the shadow of a doubt exists as to the responsibility of the holder of the cheque.

That any loss consequent upon your paying forged cheques or bills should be yours is only in accordance with the universal usage, not only of banking establishments but of all others. If there is one function more than another which is peculiarly that of a Branch Manager—at least where he acts as teller, which he generally does—it must be to see that every cheque or document, for which he parts with the bank's funds, bears the genuine signature of the party entitled to the money, or that of his legally accredited agent. In the ordinary affairs of life, he who pays money to the wrong person inevitably bears the loss, on the same principle that he suffers pain if he burns his fingers; and it does not appear upon what ground a Branch Manager should be exempted from the operation of a law to which all are alike subject.

You hold it to be a hard case, notwithstanding, that a Manager should be made to sustain a loss in *any* case arising out of transactions which yield him no advantage individually, but were adopted by him solely to promote the interests of the bank.

But it cannot be to the interest of a bank to run risks altogether disproportioned to the profits derivable from them: and of this description are the transactions now in question; and it is for this reason that such

transactions are expressly interdicted, unless you choose to adopt them on your own responsibility. If you dislike the alternative, your course is to avoid the transactions, for which your instructions are not only sufficient warrant, but amount to a command.

I am prepared to hear you tell me that the principles I advocate would reduce a Manager to a mere automaton. I am very far, however, from seeking to establish any such doctrine.

Although I contend that the discretionary power which you seek for in your capacity of Branch Manager cannot consistently with the safe working of a bank be *given*, I by no means wish to assert that such discretion may not, under certain circumstances, be *taken*. The instructions given by a bank to its officers are to be interpreted after the spirit as much as after the letter; and a departure from the strict letter may, nevertheless, be in strict accordance with the spirit of your instructions.

Strictly taken, for example, the 4th article of your code is, that any overdraft or excess of overdraft made without the sanction of the Directors will be at the risk of the Manager making it; but mark what follows,—“*until specially and directly sanctioned by the Directors.*” Now, according to my understanding of this, it gives you almost an unlimited discretion, if you choose to exercise it. You may make advances, and these advances will

continue at your risk, but only until such time as they receive the sanction of the board : and if you properly understand your business, and have continually in view the nature of your existing *general* instructions, you will rarely make an advance which your Directors will *not* sanction.

You will remind me, perhaps, of the rejection by your Directors of various accounts which you have recommended to them from time to time ; and also of sundry suggestions on general subjects, which have received the same "ignominious treatment." (I think this was your expression.) As regards the rejected accounts, I think it highly probable that they did not conform in all respects to your special or general instructions. With respect to your "suggestions"—instead of leaping to the conclusion, that because they are not adopted, the Directors have withdrawn all confidence in your judgment, you should recollect that, from their position, they command a range of view that embraces the whole establishment, from its nearest to its most remote extremities ; and that what might be entirely in accordance with your views of things, and the particular interests of your branch, might not be entirely conducive to the interests of the bank at large.

Then why not say so ? you ask. If a suggestion is rejected, we are surely entitled to know why ? Not necessarily. The Directors find their time sufficiently occupied in giving

instructions what shall be done, without stepping out of their way to reason their officers out of crotchets that may be impolitic or impracticable.

You will do well, then, to lay aside that questioning petulancy of tone that too easily besets young Managers ; for in proportion as it elevates you in your own esteem, it lowers you in that of others. It is not becoming in one, still on the sunny side of thirty, to sneer at the judgment of those who are greatly his seniors in age and experience, and who, by possibility at least, may be his superiors likewise in knowledge and understanding. Even were this prevalent contempt for your official betters well founded, there is a certain forcible but vulgar adage, you will recollect, touching the impolicy of crying stinking fish.

You will find it a more becoming and a wiser course to "think others see as well as you," and to believe that your superiors in office are actuated by the same spirit which animates yourself—a steadfast endeavour and desire to forward to the utmost of your several abilities the best interests of the bank.

The task which I imposed upon myself and you when I commenced this correspondence, is now finished—at least for the present. I do not know whether I have imparted to you in these letters anything absolutely new, or that was not tolerably well known before : but when I became a Branch Manager myself, I

became aware, or at all events the fancy struck me, that, as in English law, there was in English banking a certain section of the code unwritten and traditional only. Very able works existed, I knew, for I had read many such on the general subject—on banking viewed from without, so to speak: I imagined, therefore, that a view of the subject from within—from behind the scenes—from the board-room itself—would not be altogether devoid of novelty or interest. This may have been a mere hallucination on my part, or it may have been the result of ignorance: but if so, I shall at least have the satisfaction of reflecting that in anything that I have written, I have not consciously pilfered from other writers.

Some of my elder and graver brethren, I apprehend—if any such rank amongst my readers—will be slow to excuse the flippancy with which I have treated the subject; but as I did not aspire to address, far less to teach *them*, but to impart to my juniors the substance of my own experience, such as it has been, I sought to invest the subject with such familiar and cheerful allusion as I could bring to bear upon it, by way of set-off to its naturally dry and unattractive character.

And now, farewell. You asked my advice as an “old hand,” and I have given it, frankly and bluntly, as the manner of an Old Hand should be. You may question its soundness, but you will not doubt its sincerity.

GEORGE PHILIP AND SON, PRINTERS, LIVERPOOL.

